powered for success

canexus

corporate profile Canexus produces sodium chlorate and chlor-alkali products largely for the pulp and paper and water treatment industries. Our five plants in Canada and one plant in Brazil are reliable, low-cost, strategically-located facilities that capitalize on competitive electricity costs and transportation infrastructure to minimize production and delivery costs.

Canexus Income Fund makes monthly cash distributions to unitholders and targets opportunities to maximize unitholder value. The Fund trades on the TSX under the symbol CUS.UN.

Canexus Income Fund commenced operations when its initial public offering was completed on August 18, 2005. We previously operated as the chemicals business of Nexen Inc. for more than 30 years. Not all of the chemicals operations of Nexen Inc. were acquired by the Fund. Unless otherwise noted, the Fund reports the 100 per cent results of Canexus Limited Partnership, of which the Fund indirectly owns 38.6 per cent.

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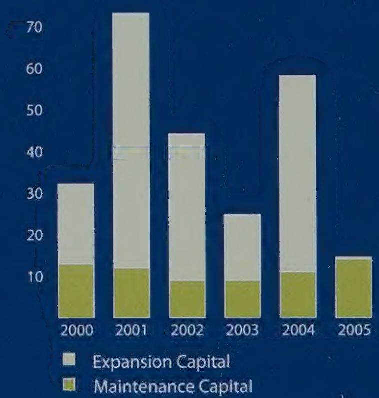
Management, March 2006

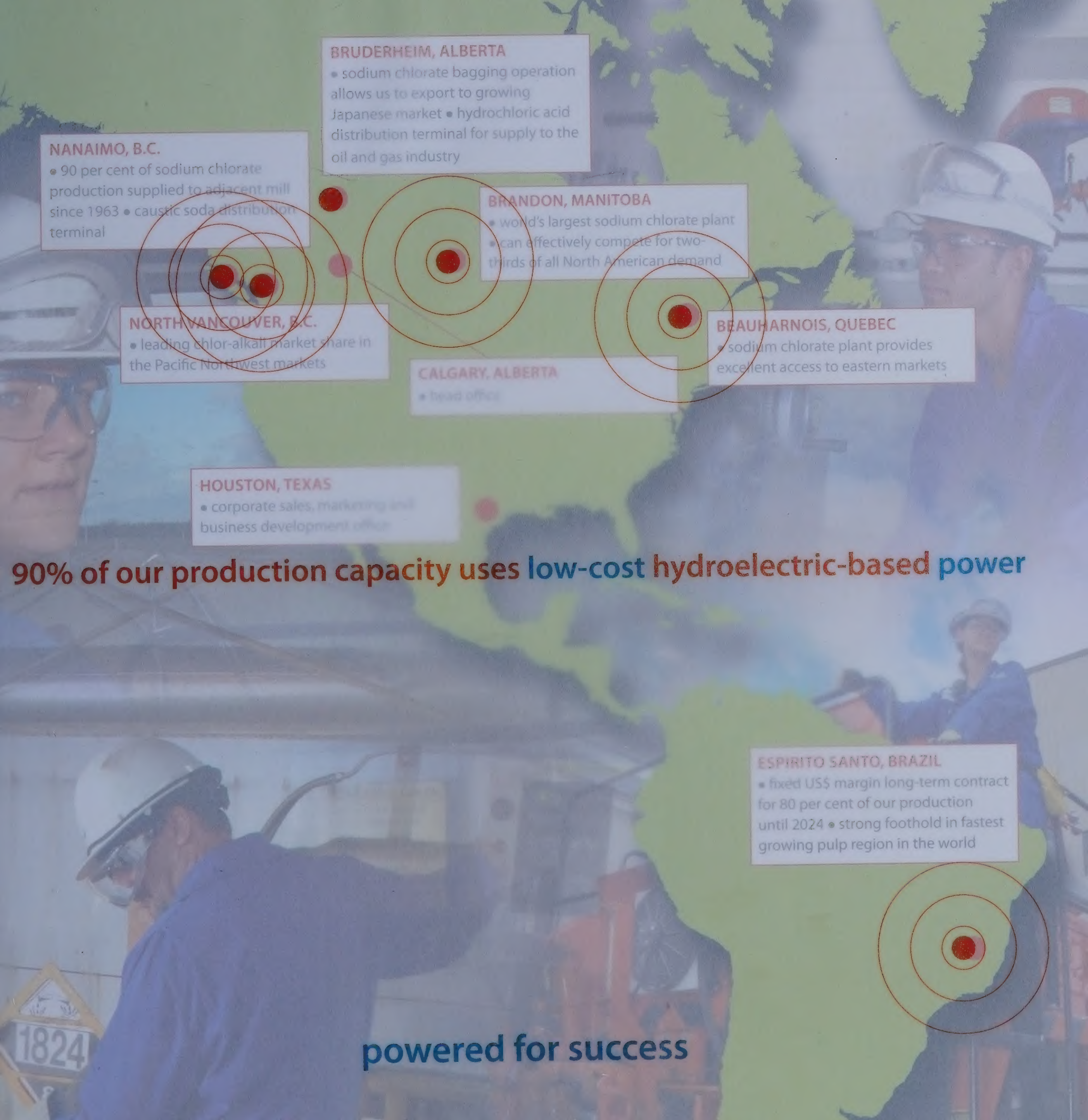
- Dedicated and highly skilled workforce commited to our success as an independent public entity
- Our flagship plant in Brandon is modern and reliable. Since our 2004 expansion to increase capacity by 33 per cent, the plant has operated at full rates
- Our customer base includes seven of the world's top ten pulp producers
- We hold the third largest sodium chlorate market share in North America, which is the world's largest sodium chlorate market

world-class assets

STABLE MAINTENANCE CAPITAL REQUIREMENTS

(Cdn$ millions)



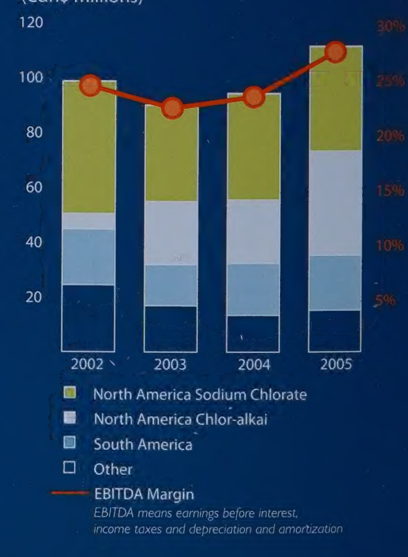

BRUDERHEIM, ALBERTA
• sodium chlorate bagging operation allows us to export to growing Japanese market • hydrochloric acid distribution terminal for supply to the oil and gas industry
NANAIMO, B.C.
• 90 per cent of sodium chlorate production supplied to adjacent mill since 1963 • caustic soda distribution terminal
BRANDON, MANITOBA
• world's largest sodium chlorate plant • can effectively compete for two-thirds of all North American demand
NORTH VANCOUVER, B.C.
• leading chlor-alkali market share in the Pacific Northwest markets
BEAUHARNOIS, QUEBEC
• sodium chlorate plant provides excellent access to eastern markets
CALGARY, ALBERTA
• head office
HOUSTON, TEXAS
• corporate sales, marketing and business development office
90% of our production capacity uses low-cost hydroelectric-based power
ESPIRITO SANTO, BRAZIL
• fixed US$ margin long-term contract for 80 per cent of our production until 2024 • strong foothold in fastest growing pulp region in the world
1824
powered for success

- Low-cost power is key to our competitive success – electricity is the largest single input cost for our products
- Our plant in Brandon, Manitoba, is the world's largest sodium chlorate facility and has a leading cost structure
- Solid margins demonstrate our strength in a mature commodity business

low-cost

EBITDA AND EBITDA MARGIN

(Cdn$ millions)



EBITDA means earnings before interest, income taxes and depreciation and amortization

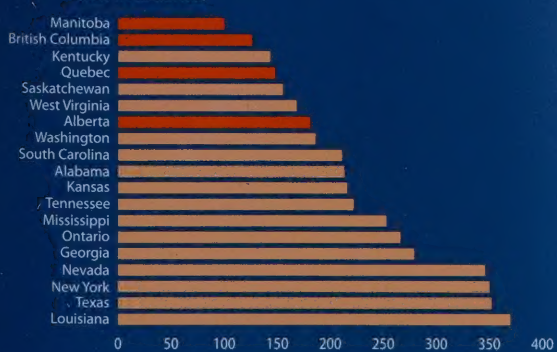
- 90 per cent of Canexus production capacity is located in regions with low-cost hydroelectricity
- Our access to renewable hydroelectricity is a sustainable competitive advantage
- Canexus plants are supported by excellent and efficient distribution infrastructure
- We're well positioned in South America – the world's fastest growing pulp market

- Dedicated and highly skilled workforce commited to our success as an independent public entity
- Our flagship plant in Brandon is modern and reliable. Since our 2004 expansion to increase capacity by 33 per cent, the plant has operated at full rates
- Our customer base includes seven of the world's top ten pulp producers
- We hold the third largest sodium chlorate market share in North America, which is the world's largest sodium chlorate market

strategically-located world-class assets

RELATIVE ELECTRICITY COSTS

(North America)



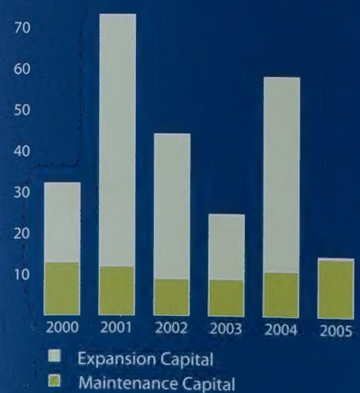
■ 90% of production in low cost regions

(Manitoba=100)

Sources:
1. Manitoba, British Columbia, Quebec and Alberta: 2005 average per Management, March 2006
2. Saskatchewan: SaskPower, March 2006
3. Ontario: IESO, March 2006
4. United States: Energy Information Administration: March 2006

STABLE MAINTENANCE CAPITAL REQUIREMENTS

(Cdn$ millions)



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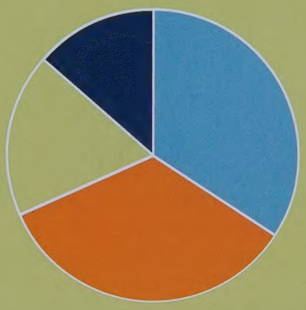
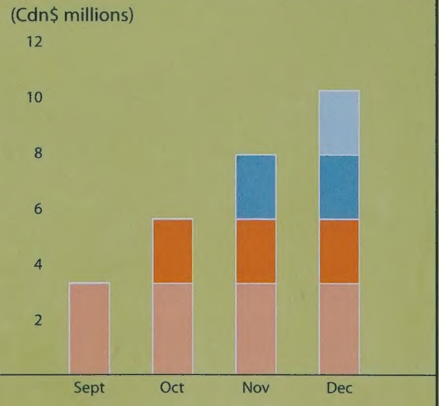
financial highlights

2005 EBITDA BY BUSINESS UNIT



EBITDA means earnings before interest, income taxes and depreciation and amortization

DECLARED DISTRIBUTIONS TO UNITHOLDERS (2005 cumulative)



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SELECTED ANNUAL FINANCIAL INFORMATION

for the years ended December 31

(Cdn$ thousands)	2005	2004
Sales Revenues	397,423	377,933
Cost of Goods Sold	275,211	273,248
Gross Margin	122,212	104,685
Gross Margin (%)	31%	28%
EBITDA	111,332	94,193

FUND'S STATEMENT OF DISTRIBUTABLE CASH

for the period August 18, 2005 to December 31, 2005
(Unaudited)

(Cdn$ thousands, except per unit amounts)	
Canexus Limited Partnership (Canexus LP)	
Net Income	30,206
Provision for Income Taxes	(113)
Depreciation and Amortization	13,482
Interest Expense	3,242
EBITDA	46,817
Unrealized (Gains) Losses on Currency Translation	(5,029)
Change in Fair Value of Foreign Exchange Options	(1,277)
Interest Expense	(3,242)
Maintenance Capital Expenditures	(7,327)
Distributable Cash from Canexus LP	29,942
Canexus Income Fund	
Weighted Average Share of Distributable Cash from Canexus LP	11,408
Trust Administration Expenses	(100)
Distributable Cash from Canexus Income Fund	11,308
Cash Distributions Paid or Declared	10,325
Payout Ratio	91%
Payout Ratio Normalized for Timing of Maintenance Capital Expenditures[1]	85%

[1] 2005 maintenance capital expenditures of $14.2 million prorated for the period.

Canexus products are used by our customers to manufacture many consumer products that touch millions of lives every day.

- **Sodium chlorate** is used to bleach pulp in the manufacture of white paper and has virtually eliminated the discharge of dioxins in pulp and paper mill effluents.
- **Chlorine** is widely used in the water treatment industry throughout North America.
- **Caustic soda** is used in the pulp and paper industry, in oil refineries and in the production of metals and many chemicals.
- **Hydrochloric acid** has a wide variety of uses in water treatment, the production of metals and in the oil and gas industry.

a leading low-cost supplier of sodium chlorate & chlor-alkali

Responsible Care® is the chemical industry's global voluntary sustainability initiative under which companies work together to continuously improve health, safety and environmental performance, and to communicate with stakeholders about products and processes.

Responsible Care® is much more than a slogan at Canexus. When we successfully completed the Responsible Care® verification process in 1994, we were one of the first chemical companies to be verified. We are pleased to report there were no serious safety, health or environmental incidents at any of our facilities in 2005. Our plant in Brazil operates to the same high standards as our North American plants, and recently achieved Responsible Care® verification.

Canexus is committed to Responsible Care®. The principles and practices of the initiative provide an effective framework for delivering excellent performance and for involving our stakeholders, including the communities in which we operate, in our business. Canexus acts with Responsible Care®, not because we have to, but because it is the right way to run a business. Responsible Care® is good business.

For more information on Responsible Care®, visit www.responsiblecare.org.

president's message

POSITIONED FOR SUCCESS

Canexus Income Fund was created during 2005 from a successful business with a proven, reliable history. In our first few months of existence, we have built on the strong Nexen Chemicals heritage and made significant steps in our transition to being a successful public company.

We achieved key targets for 2005 that were set in anticipation of our initial public offering that was completed in August. With the financial and operational results from our first five months fully in line with expectations, we consistently paid distributions totaling more than $10.3 million to our unitholders at a normalized payout ratio of 85 per cent. For 2006, we expect to maintain annual distributions to unitholders of $27.8 million, or 87.48 cents per unit.

Canexus has a combination of attributes that fit the income fund model very well. First and foremost is our significant and sustainable competitive advantage. Our production facilities are strategically located in regions with low-cost, renewable hydroelectric power. Secondly, our business produces stable and reliable cash flows from modern plants with low, predictable maintenance capital. Thirdly, we serve long-term customers, including our major customer in Brazil served through a fixed-margin contract that is in place until 2024.

Perhaps the clearest demonstration of our commitment to long-term success comes directly from the people throughout our organization who made outstanding contributions during our transition to a public entity. Canexus employees share a vision and determination to prove our abilities as an independent company. Virtually all Canexus employees own Fund units, which aligns our interests with those of our investors.

Canexus achieved some significant milestones during 2005. The positive margin impact from a full year of production at our expanded Brandon plant clearly demonstrates our ability to leverage this key asset for the benefit of our unitholders. We also achieved record sales revenues in both our South American and our North American chlor-alkali businesses. These accomplishments were possible because of our low-cost operations and high-production reliability, supported by on-budget maintenance programs and projects.

Operational accomplishments were further supported by our outstanding safety and environmental record. No significant injuries or incidents occurred at our facilities during the year, reflecting our long-standing commitment to Responsible Care® values. We will continue the ongoing Responsible Care® re-verification of our facilities because it benefits our people, our communities and our business.

MANAGING OUR ENVIRONMENT

2005 was not without its challenges. Like many Canadian exporters, we confronted the increasing value of the Canadian dollar against the US dollar by implementing a currency option program that limits our exposure. We also are employing other practical methods for managing currency risks. For our investors, 2005 included a turbulent period when the federal government reviewed tax treatment of the trust sector. In late November the federal government opted to leave the tax status of the trust sector alone.

An ongoing challenge for Canexus is to enhance the market's understanding of our business' potential, despite the high-profile shutdown of capacity in the pulp and paper sector. Despite certain mill closures, demand for sodium

"Ultimately, our success as a public entity will depend on maintaining your trust and enhancing the value of your investment."

chlorate continues to be strong. Increased demand for exports, market demand for brighter, whiter paper, and the conversion of some mills from hardwood pulp production to softwood pulp production, which consumes more sodium chlorate, are all factors that are driving increased sodium chlorate demand. Our products represent a relatively small portion of pulp producers' costs, but are critical inputs to their processes.

Volatile energy prices during the year were a challenge that also highlighted a Canexus strength. Electricity is the largest single input cost for our products. While about 90 per cent of Canexus facilities benefit from stable electricity prices, our competitors, who rely on electricity generated from natural gas, were particularly affected. By leveraging our hydroelectric advantage, we improved our gross margin.

POWERED FOR SUCCESS

Looking forward, I am optimistic about the prospects for each of our three business units. There are a number of specific growth opportunities available that we can capitalize on in the near future.

Subsequent to year end, our Board of Directors approved further studies to upgrade our Brandon plant, the largest sodium chlorate facility in the world. We are considering a phased expansion approach , with the first phase likely to come on stream in the second half of 2007. Expansion efforts will be flexible to market conditions and supported by low-cost hydroelectricity and a strong product distribution network. Capital costs are projected to be significantly lower than greenfield expansion.

At our North Vancouver chlor-alkali plant, the Canexus Board also approved proceeding to the engineering phase to convert the plant to membrane technology that would significantly reduce costs, increase capacity and improve product quality. Detailed cost estimates for a final project plan are expected to be considered by the Board later in 2006. If approved, conversion would be completed in late 2008.

In South America, Canexus continues to build its strong relationship with Aracruz Cellulose, the continent's largest pulp producer. Aracruz has announced a debottleneck project that could increase sodium chlorate demand by up to ten per cent by late 2007. We are also pursuing other business development opportunities in this fast growing market, which has significant access to low-cost renewable wood fibre and a number of planned pulp production projects.

At Canexus, we are confident, but not complacent, about our future. Our strategic advantages allow us to consider many opportunities to build the value of our business. We will be prepared for tomorrow's opportunities thanks to the counsel of our directors, the dedication of our employees and our relationships with our customers. But ultimately our success as a public entity will depend on maintaining your trust and enhancing the value of your investment. I thank you for your continued support.

Gary Kubera
President and CEO

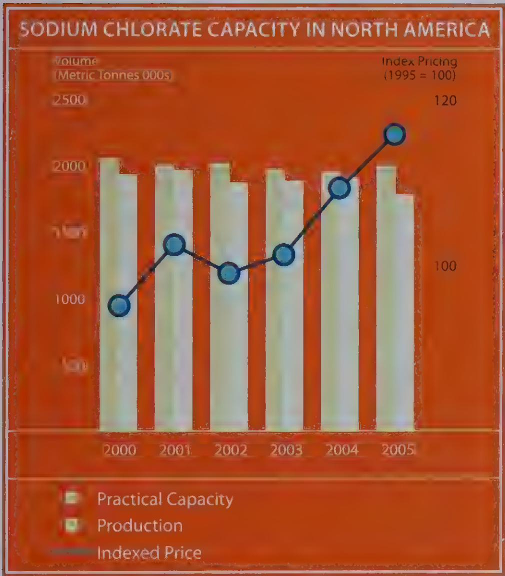
The success of Canexus is based on our ongoing ability to safely and efficiently produce and deliver low-cost, high-quality products to our customers. We operate a total of six manufacturing plants – five in Canada and one in Brazil – organized into three business units:

- **North America sodium chlorate**
- **North America chlor-alkali**
- **South America**

Our plants are modern, well-capitalized, well-maintained and extremely reliable, with an exceptional workforce that is highly skilled and committed to safety. Recent strategic investments in our manufacturing assets will enable continuing benefits for our unitholders and our customers. The ability to deliver price, quality and service has enabled Canexus to establish long-term relationships with world-class customers, including seven of the world's top ten pulp producers.

operations review

Location	Product	Practical Capacity (MT/year)	Primary Power Source and Regulation	Salt Source	Product Transportation
Brandon, Manitoba	Sodium Chlorate	263,300	Hydroelectric / Regulated	Evaporated salt from Belle Plaine, Saskatchewan	Rail
Bruderheim, Alberta	Sodium Chlorate	72,300	Coal and natural gas / Deregulated	On-site brine wells	Truck and rail
Beauharnois, Quebec	Sodium Chlorate	44,900	Hydroelectric / Regulated	Brine from adjacent facility	Truck and rail
Nanaimo, British Columbia	Sodium Chlorate	24,300	Hydroelectric / Regulated	Solar-evaporated salt from Mexico	90 per cent truck to adjacent site; 10 per cent barge
North Vancouver, British Columbia	Caustic Soda Chlorine Hydrochloric Acid	171,200 dry 151,800 36,400 dry	Hydroelectric / Regulated	Solar-evaporated salt from Mexico	Truck, rail, 2 owned ocean barges
Espirito Santo, Brazil	Sodium Chlorate Caustic Soda Chlorine Hydrochloric Acid	62,200 51,500 dry 45,700 25,900 dry	Hydroelectric / Deregulated	Solar-evaporated salt from Brazil	Liquids piped to adjacent Aracruz mill; some products trucked to customers



Source:
Indexed price: Chemical Market Associates, Inc. (CMAI) March 2006
Capacity and Production: Statistics Canada and U.S. Department of Commerce
2005 values are Management estimates – 2005 production was impacted by Hurricanes Katrina and Rita

- **Strong supply/demand fundamentals support positive price trend**
- **2005 marked the first full year of production at our expanded Brandon facility**

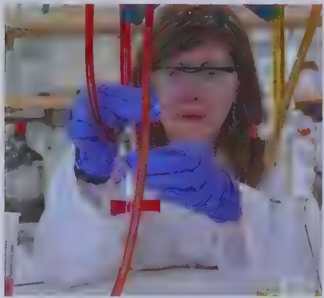
North America is the world's largest market for pulp and paper and, as a result, sodium chlorate. Continental sodium chlorate demand accounts for 41 per cent of global sodium chlorate demand. Canexus is currently the third largest supplier, with about a 21 per cent market share. The North American paper and sodium chlorate industries are projected to experience modest growth over the next ten years.

Gross margins for the North American sodium chlorate business increased two per cent over 2004, despite the effect of the strengthening Canadian dollar. The stronger margins were largely due to a 24 per cent increase in production at our low-cost Brandon plant. Following the 2004 expansion, the Brandon facility is the largest sodium chlorate plant in the world and one of the lowest cost sodium chlorate facilities in North America.

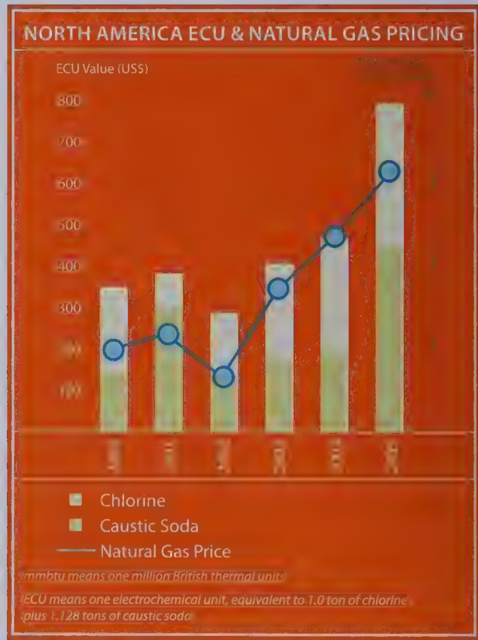
Total shipments of sodium chlorate decreased slightly in 2005 compared to 2004. The decrease was due to reduced operating rates at Bruderheim because of high electricity rates late in the year and the closure of Nexen's Amherstburg plant, which was not acquired by Canexus LP. Sales revenue of $192.9 million for this business unit accounted for 49 per cent of 2005 total sales revenues.

In 2006, further expansion options for Brandon will be studied which collectively could increase annual capacity by 70,000 tonnes over five years from the current 263,300 tonnes. The study will examine a phased expansion approach, with the first phase likely to come on stream in the second half of 2007. Expansion efforts will be flexible to market conditions and supported by low-cost hydroelectricity and a strong product distribution network.

north america chlor-alkali



- **High natural gas prices positively support the value of our products**
- **Canexus margins benefit from our low-cost hydroelectric power advantage**



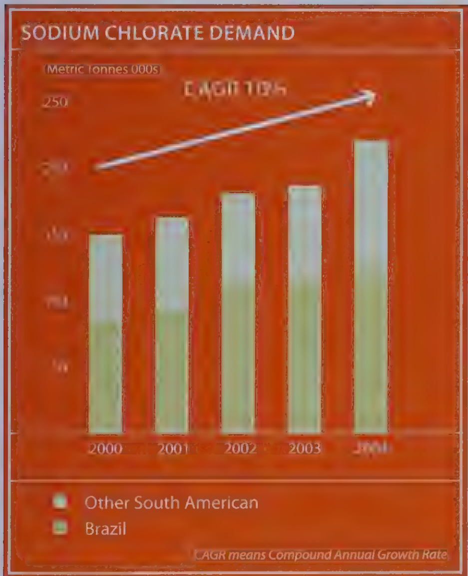
Source:
Indexed price: CMAI (March 2006)

Chlor-alkali products include caustic soda, chlorine and hydrochloric acid. In addition to caustic sales to the pulp industry, chlor-alkali product sales diversify the Canexus customer portfolio as they are widely used in a variety of applications including water treatment, chemical production, mining, and oil and gas production and refining.

As one of only two chlor-alkali suppliers located west of the Rockies in 2005, Canexus has a leading market share in the Pacific Northwest region. Our chlor-alkali business uses low-cost hydroelectric power. In contrast, approximately 70 per cent of overall North American production is dependent on electricity generated from natural gas. Because electricity accounts for about 40 per cent of the variable cost of chlor-alkali production, we have significantly less exposure to high and volatile natural gas prices.

In 2005, we benefited from higher market prices while our electricity costs remained stable. Gross margins for this business unit increased to 34 per cent, compared to 27 per cent in 2004. Stronger sales prices were slightly offset by a production volume decrease of six per cent resulting from a successful nine-day scheduled maintenance shutdown at the North Vancouver plant in September and higher energy costs. Chlor-alkali sales revenue for the year increased by 23 per cent to $136.7 million, which represents approximately 34 per cent of total sales revenues.

A project to convert our North Vancouver plant to membrane technology will advance to the engineering phase in 2006. Conversion would significantly reduce costs, increase capacity, reduce greenhouse gas emissions and improve product quality. Detailed cost estimates for a final project plan will likely be considered by the Board of Directors later in the year. If approved, the conversion would be completed in late 2008.



Source:
Management: Global Trade Information Services, Inc

- **Over 80 per cent of our production is sold under a US$ fixed margin contract until 2024**
- **Canexus has a strong foothold in South America – the world's fastest growing pulp producing region**

South America is the world's fastest growing pulp producing region, and Canexus is the continent's number two sodium chlorate supplier and a significant producer of chlor-alkali products. Key features of the South American market are access to fast growing trees, world-scale investments in new plant facilities and infrastructure, and supportive government policies.

Production at our facility in Brazil has grown significantly since we purchased it in 1999. Since then, we have greatly enhanced production capacity and reliability, more than doubling sodium chlorate output and significantly increasing chlor-alkali output. We will continue to leverage our Brazilian operations to support continuing demand growth in the region.

The foundation of our position in South America is a strong relationship with Aracruz Cellulose S.A., a company traded on the New York Stock Exchange and the world's leading producer of bleached eucalyptus pulp. We have a long-term, exclusive supply contract with Aracruz at the Espirito Santo mill that ensures constant fixed U.S. dollar margins.

Sales revenue for 2005 increased by 15 per cent to $67.8 million, representing 17 per cent of total sales revenues, based on stronger demand for both sodium chlorate and chlor-alkali. Gross margin decreased to 32 per cent in 2005 from 36 per cent in 2004 primarily due to higher electricity costs, which for the most part are recovered under our fixed-margin contract.

Canexus continues to pursue business development opportunities in the fast growing South America market, which has significant access to low-cost renewable wood fibre and a number of planned pulp production projects.

The Canexus Board of Directors believes that effective governance improves the performance of the Fund and benefits all securityholders. The Board and management are committed to good corporate governance and consider it to be central to the efficient and effective operation of Canadian public issuers.

corporate governance

Back Row: Thomas A. Sugalski, Lyall C. Work, Kevin J. Reinhart
Middle Row: Douglas P. Hayhurst, Nicholas G. Kirton, Stephanie L. Felesky
Front Row: Hugh A. Fergusson, Dennis G. Flanagan, Gary L. Kubera, Marvin F. Romanow

In the short time our Board members have been together, they have made great strides in developing and implementing sound governance practices

In the short time our Board members have been together, they have made great strides in developing and implementing sound governance practices. The directors have written terms of reference for the Board and its three standing committees, adopted several policies, including a corporate governance policy and approved Categorical Standards for Director Independence that meet or exceed the requirements set out in the applicable provisions of National Instrument 58-101 – *Disclosure of Corporate Governance Practices* and National Policy 58-201 – *Corporate Governance Guidelines*. The Board complies with the rules outlined in Multilateral Instrument 52-101 and has substantially adopted all of the recommendations of National Policy 58-201 and National Instrument 58-101.

The principal objectives in directing and managing the business and affairs of the Fund are to enhance securityholder value and operate with honesty and integrity in the conduct of business. The Board has adopted a code of ethics for its directors, officers and employees and also implemented a number of policies, including an external communications policy.

The Board has ten members, five of whom are independent as set out in National Policy 58-201 and nine of whom are independent of management. The Board is responsible for stewarding the Fund and its strategy and providing effective leadership to supervise management of the Fund's business and affairs to grow securityholder value responsibly and in a sustainable manner. It meets without management and without non-independent directors at every regularly-scheduled meeting. Additional information on Canexus' Board and Committees is provided in our 2005 Proxy Circular. The terms of reference for the Board and committees along with its policies can be found at www.canexus.ca.

Board Committees include the (i) Audit Committee, (ii) Corporate Governance and Compensation Committee, and (iii) Responsible Care and Public Policy Committee. All members of the Corporate Governance and Compensation Committee and the Audit Committee are independent and majority of the Responsible Care and Public Policy Committee members are independent. All members of the Audit Committee are financially literate.

AUDIT COMMITTEE

Douglas P. Hayhurst (Chair), Nicholas G. Kirton, Lyall C. Work

The Audit Committee's primary role is to assist the board in overseeing:

1. integrity of annual and quarterly financial statements to be provided to securityholders and regulatory bodies;
2. compliance with accounting and finance-based legal and regulatory requirements;
3. external auditor's qualifications, independence and compensation, and communicating with the external auditor;
4. system of internal accounting and financial reporting controls that Management has established;
5. performance of the internal and external audit process and of the external auditor;
6. financial policies and strategies including capital structure;
7. financial risk management practices; and
8. transactions or circumstances which could materially affect the financial profile of the Fund or Canexus Limited Partnership.

The Board has adopted a code of ethics for its directors, officers and employees, and also implemented a number of policies, including an external communications policy

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE

Lyall C. Work (Chair), Stephanie L. Felesky, Hugh A. Fergusson, Douglas P. Hayhurst, Nicholas G. Kirton

The Corporate Governance and Compensation Committee, on behalf of the Board, oversees the:

1. development and implementation of principles and systems for managing corporate governance;
2. identification of qualified candidates and recommending nominees for Director and Board Committee appointments;
3. evaluation of the Board, Board Committees, all individual directors, the Board Chair and Committee Chairs; and
4. implementation and effectiveness of the Ethics Policy and the compliance programs under the Ethics Policy, all with a view to ensuring the Fund implements best practices in corporate governance.

With respect to compensation matters, the Committee is responsible for assisting the Board in overseeing:

1. key compensation and human resources policies;
2. Chief Executive Officer objectives, performance reviews and compensation;
3. executive management compensation;
4. executive management succession and development; and
5. executive compensation disclosure.

RESPONSIBLE CARE AND PUBLIC POLICY COMMITTEE

Hugh A. Fergusson (Chair), Stephanie L. Felesky, Thomas A. Sugalski

The Responsible Care and Public Policy Committee's mandate is to oversee, monitor and counsel management for:

1. development and effective implementation of systems, programs and initiatives for the management of health, safety, security, environment and public policy issues;
2. compliance with applicable law related to safety, environment, health, security and matters pertaining to public policy; and
3. maintenance and improvement of current and emerging issues in health, safety, security, environment and public policy.

BOARD OF DIRECTORS

Stephanie L. Felesky, C.M.

Corporate Governance and Compensation Committee Member
Responsible Care and Public Policy Committee Member

Stephanie Felesky is a director of Canada Lands Company Limited and is also currently a director for the University of Calgary and the Calgary Homeless Foundation. She is a past board member of Star Choice Communications Ltd. and several charitable or community-based organizations. Ms. Felesky received her Bachelor of Education, with Distinction, in 1994, from the University of Calgary.

Hugh A. Fergusson

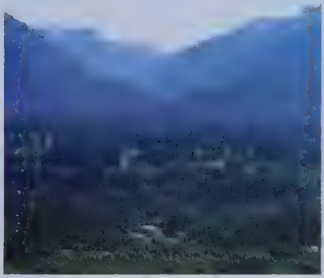
Responsible Care and Public Policy Committee Chair
Corporate Governance and Compensation Committee Member

Hugh Fergusson is an independent businessman and corporate director, and a retired executive who had over 25 years of service with The Dow Chemical Company. Mr. Fergusson is currently the President of Argyle Resources Inc., a senior affiliate of the Implementation & Advisory Group Ltd., a director of Provident Energy Trust, Taylor Gas Liquids NGL Ltd. and the Canadian Energy Research Institute. Mr. Fergusson received a Bachelor of Arts in Political Science in 1970 from McMaster University and a Bachelor of Law from the University of Windsor in 1973

Dennis G. Flanagan

Board Chair

Dennis Flanagan is an independent director of Nexen and a retired oil executive of ELAN Energy Inc. and Ranger Oil Ltd. Mr. Flanagan has been involved in all phases of oil and gas exploration and development in Canada, the US and the UK sector of the North Sea. He is also a director of NAL Oil & Gas Trust and a founding Chair of STARS Foundation. Mr. Flanagan completed the Registered Industrial and Cost Accountant program, predecessor to the Certified Management Accountant program, in 1967



Douglas P. Hayhurst
Audit Committee Chair
Corporate Governance and Compensation Committee Member

Douglas Hayhurst has extensive business consulting expertise in a wide range of industries, including the forest, paper and packaging, chemicals and other heavy manufacturing industries. Mr. Hayhurst formerly was the Global Forest and Paper Industry Leader for IBM Business Consulting Services and for PricewaterhouseCoopers. He has served on a number of public, private and not-for-profit boards and currently serves on The Layfield Group, Chair of The Institute of Corporate Directors BC Chapter, the BC Transplant Foundation and the BC Board of The Nature Conservancy of Canada. Mr. Hayhurst received a Bachelor of Arts in Business Administration from the Richard Ivey School of Business at the University of Western Ontario in 1969. He is a Chartered Accountant in British Columbia and Ontario and was elected a Fellow of the British Columbia and Ontario Institutes of Chartered Accountants

Nicholas G. Kirton
Audit Committee Member
Corporate Governance and Compensation Committee Member

Nicholas Kirton is a recently retired Chartered Accountant with over 38 years of service with KPMG LLP. Mr. Kirton has served on a number of boards including KPMG and the Canadian Institute of Chartered Accountants. He is also a director of Builders Energy Services Trust, Result Energy Inc. and MacLeod Resources Ltd.. Mr. Kirton received a Bachelor of Science (Math and Physics) in 1966 from Bishop's University, his Chartered Accountant designation in Quebec in 1969 and was named a Fellow of the Chartered Accountants (FCA) in Alberta in 199[illegible]

Gary L. Kubera
President & Chief Executive Officer
Director

Gary Kubera was appointed President of Nexen Chemicals in March 2005, after previous senior positions in Sales, Marketing and Business Development. Prior to his employment with Nexen Chemicals, Mr. Kubera worked for a number of chemicals-related enterprises, including as Vice President for Global Core Business of SC Jonnson's Polymer division from 2000 to 2001 and a variety of positions with McWhorter Technologies Inc. Mr. Kubera received his Bachelor of Arts in Chemistry from Ithaca College in 1982 and his Masters of Business Administration from the University of Chicago in 1988, majoring in Finance

Kevin J. Reinhart
Director

Kevin Reinhart is Vice President, Corporate Planning and Business Development of Nexen. He has held this position since July 2002. Mr. Reinhart joined Nexen in July 1994 and previously held the positions of Treasurer and Corporate Controller. Prior to his employment with Nexen, Mr. Reinhart worked for 13 years in progressively senior roles w[illegible] KPMG Canada including a two-year term in the firm's National Office Department of Professional Practice. Mr. Reinhart has a Bachelor of Commerce from Saint Mary's University in Nova Scotia and is a Chartered Accountant

Marvin F. Romanow
Director

Marvin Romanow is the Executive Vice President and Chief Financial Officer of Nexen, a position he has held since June 2001. Mr. Romanow has 25 years experience in the oil and gas industry, and has he[illegible] senior positions in engineering, operations, finance and planning with Wascana Energy Inc., Amoco Canada Petroleum Company Ltd., and Dome Petroleum Ltd. Mr. Romanow also currently serves as a director of Syncrude Canada Ltd., Canada's largest oil sands venture. Mr. Romanow holds a Masters of Business Administration and a Bachelor of Engineering, with Great Distinction, from the University of Saskatchewan

Thomas A. Sugalski
Responsible Care and Public Policy Committee Member

Thomas Sugalski retired as President of Nexen Chemicals in March 2005. Mr. Sugalski has 39 years experience i[illegible] the chemicals industry and has held a variety of managerial positions in marketing, employee relations and general management. Mr. Sugalski was a member of the American Chemistry Council and a Director of the Chlorine Chemistry [illegible] [illegible] Sugalski received his Bachelor of Arts in English and Chemistry from Marquette University in Wisconsin in [illegible]

Lyall C. Work
Corporate Governance and Compensation Committee Chair
Audit Committee Member

Lyall Work began his career with Cominco Ltd. and joined Albright & Wilson in 1967 where he held various senio[illegible] positions until his retirement in 2001. Mr. Work served on 20 boards of wholly [illegible] ventures and on one public company board in India which was 40% owned by Albright. Mr. Work received his Bachelor of Science in Chemical Engineering from the University of Alberta in [illegible]

The following management's discussion and analysis of financial condition and results of operations "MD&A" is prepared as of February 24, 2006. This MD&A should be read in conjunction with (i) the audited consolidated balance sheet of Canexus Income Fund ("the Fund") as at December 31, 2005 and the audited consolidated statements of income and cash flows of the Fund for the period from June 28, 2005 to December 31, 2005 and the notes thereto; (ii) the audited consolidated financial statements of Canexus Limited Partnership ("Canexus LP") as at and for the year ended December 31, 2005 and the notes thereto; (iii) the audited financial statements and notes thereto of the chemicals business of Nexen Inc. ("Nexen") (as predecessor to Canexus LP prior to its acquisition by Canexus LP on August 18, 2005 – "Chemicals Business") for the year ended December 31, 2004 as contained in the Fund's Business Acquisition Report dated November 1, 2005 and available on the Fund's profile on the System for Electronic Data Analysis and Retrieval's ("SEDAR") website at www.sedar.com. The audited consolidated financial statements of the Fund, Canexus LP and the Chemicals Business have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Canexus Income Fund earns income from its 38.6% interest in Canexus LP. The Fund accounts for its investment in Canexus LP using the equity method and therefore does not consolidate the results of operations of Canexus LP. As a result, audited consolidated financial statements with accompanying notes thereon have been presented for both the Fund and Canexus LP. In addition, the following MD&A presents a discussion of the financial condition and results of operations for both the Fund and Canexus LP. Information for the year ended December 31, 2005 for Canexus LP includes information from Canexus LP and its predecessor, the Chemicals Business, not all of the operations of which were acquired from Nexen. Historical comparative information refers to the Chemicals Business of Nexen.

This MD&A contains forward-looking statements and information. Please see "Forward-Looking Statements and Information" for a discussion of the risks, uncertainties and assumptions relating to these statements. The selected financial information and discussion below also refers to certain measures to assist in assessing financial performance. These "non-GAAP measures" such as "earnings before interest, income taxes, depreciation and amortization"("EBITDA"), "Gross Margin", "Gross Margin Percentage", "Distributable Cash" and "Payout Ratio" should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with GAAP as an indicator of performance or as a measure of liquidity and cash flow. Non-GAAP measures do not have standard meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

Unless otherwise noted, all dollar amounts are in Canadian dollars and all tabular amounts are in thousands of Canadian dollars.

Additional information relating to the Fund and Canexus LP (including the Fund's annual information form which will be filed prior to March 31, 2006) is available on the Fund's profile on the SEDAR website at www.sedar.com.

GENERAL DESCRIPTION OF THE FUND AND CANEXUS LP

Pursuant to an underwriting agreement dated August 10, 2005 and initial public offering ("IPO") completed on August 18, 2005, the Fund sold 30,000,000 units of the Fund ("Fund Units", "Units", or "Unit"), at a price of $10.00 per Unit for proceeds totaling $300,000,000. The proceeds of the offering were used to partially fund the indirect acquisition (through the Fund's wholly-owned subsidiary, Canexus Commercial Trust) by the Fund of a 36.5% interest in Canexus LP. Canexus LP then acquired the Chemicals Business from Nexen through the payment of $285 million of cash received from the Fund's IPO proceeds, $200 million of cash drawn by Canexus LP from its credit facility and the issuance to Nexen of 52,285,714 exchangeable limited partnership units ("Exchangeable LP Units") of Canexus LP, each of which is exchangeable into a Fund Unit at any time at the option of Nexen. On September 16, 2005, the underwriters exercised a portion of their over-allotment option to purchase 1,750,000 Fund Units at $10.00 per Unit for proceeds of $17,500,000 which was then used to indirectly acquire an additional 2.1% interest in Canexus LP. Canexus LP then used the $17,500,000 to repurchase for cancellation 1,750,000 Exchangeable LP Units from Nexen. Following exercise of the over-allotment option, the Fund indirectly holds a 38.6% interest in Canexus LP and Nexen holds a 61.4% controlling interest in Canexus LP.

Canexus LP, through its various direct and indirect subsidiaries, produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in Brazil, largely for the pulp and paper and water treatment industries.

CANEXUS INCOME FUND

The Fund is an unincorporated open-ended trust established by a Trust Indenture dated June 28, 2005, as amended and restated August 18, 2005, under the laws of Alberta. The Fund is a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The Fund is administered by Canexus Limited, a wholly-owned subsidiary of the Fund.

The Fund effectively commenced operations through its indirect investment in Canexus LP on August 18, 2005, and income recorded by the Fund commenced on that date. Accordingly, income reported for the period ended December 31, 2005 represents 136 days of operations and is therefore not representative of typical annual operating results.

highlights and selected financial information

- IPO and TSX listing completed on August 18, 2005.
- Acquisition of a 38.6% interest in Canexus LP which purchased the Chemicals Business of Nexen.
- Distributions to Unitholders of $10.3 million ($0.3252 per Unit) declared for the period August 18, 2005 to December 31, 2005 for a payout ratio of 91%.

Cdn$ thousands, except per unit amounts	for the period from June 28, 2005 to December 31, 2005
Equity Income from Investment in Canexus LP	11,518
Net Income	11,025
Net Income ($/Unit)	0.35
Diluted Net Income ($/Unit)	0.35
Cash Distributions Declared	10,325
Cash Distributions Declared ($/Unit)	0.3252

	at December 31, 2005
Total Assets	321,007
Total Long-Term Liabilities	–

results of operations

Investments

At December 31, 2005 the Fund had an indirect investment in 31,750,000 ordinary limited partnership units (38.6%) of Canexus LP at a cost of $317.5 million. The Fund accounts for this investment using the equity method.

During the period from August 18, 2005 to December 31, 2005, the Fund's earnings from Canexus LP were $11.5 million and the carrying value of this investment at December 31, 2005 was $318.7 million.

Expenses

Trust administration expenses include directors' fees, directors' travel, professional fees and public issuer reporting costs.

The Fund provides Unit based compensation in the form of options, deferred trust units and accompanying bonus rights. Management uses the fair-value method to recognize compensation expense associated with unit based compensation at the time of grant. Expense is recognized over the vesting period or expected term of service with a corresponding increase to contributed surplus as these instruments are settled by issuing Fund Units and are not settled in cash.

Distributions

On October 15, 2005, the Fund made its first distribution of $0.1065 per Unit for the period August 18, 2005 to September 30, 2005. The Fund continues to make monthly distributions of $0.0729 per Unit and for the period from August 18, 2005 to December 31, 2005, the Fund declared distributions of $10.3 million ($0.3252 per Unit).

At December 31, 2005, the Fund had a distribution receivable from Canexus LP. Upon receipt of this distribution in January, 2006 the Fund paid distributions payable of $2.3 million outstanding at December 31, 2005.

Statement of Distributable Cash

Cdn$ thousands, except as noted	for the period from August 18, 2005 to December 31, 2005
Canexus LP	
Net Income	30,206
Provision for Income Taxes	(113)
Depreciation and Amortization	13,482
Interest Expense	3,242
EBITDA [1]	46,817
Unrealized Gains on Currency Translation	(5,029)
Change in Fair Value of Foreign Exchange Options	(1,277)
Interest Expense	(3,242)
Maintenance Capital Expenditures	(7,327)
Distributable Cash from Canexus LP	29,942
Canexus Income Fund	
Weighted Average Share of Distributable Cash from Canexus LP	11,408
Trust Administration Expenses	(100)
Distributable Cash from Canexus Income Fund [2]	11,308
Cash Distributions Declared	10,325
Payout Ratio [2]	91%
Payout Ratio Normalized for Timing of Maintenance Capital Expenditures [3]	85%

Notes:

(1) EBITDA is a non-GAAP measure that represents earnings generated to fund capital investment, meet financial obligations and fund distributions. It is considered a key measure as it demonstrates the ability of the business to meet its capital and financing commitments.

(2) Distributable Cash and Payout Ratio are non-GAAP measures generally used by Canadian income trusts as an indicator of financial performance. They are considered key measures as they demonstrate the cash available for distributions to Unitholders. The Payout Ratio is calculated as Cash Distributions Declared divided by Distributable Cash from Canexus Income Fund.

(3) Payout Ratio Normalized for Timing of Maintenance Capital Expenditures is calculated as Cash Distributions Declared divided by Distributable Cash from Canexus Income Fund (recalculated for Annual Maintenance Capital Expenditures of $14.2 million prorated for 136 days of operation).

Income Taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to Unitholders. The Fund intends to distribute substantially all of its taxable income to its Unitholders and the Fund intends to comply with the provisions of the Income Tax Act (Canada) that permit, among other items, the deduction of distributions to Unitholders from the Fund's taxable income.

summary of quarterly results

Cdn$ thousands, except per unit amounts	three months ended December 31, 2005	period ended September 30, 2005 [1]
Equity Income from Investment in Canexus LP	4,312	7,206
Net Income	4,048	6,977
Net Income ($/Unit)	0.12	0.23
Diluted Net Income ($/Unit)	0.12	0.23
Cash Distributions Declared	6,944	3,381
Cash Distributions Declared ($/Unit)	0.2187	0.1065

Note:

[1] For the period August 18, 2005 to September 30, 2005. The Fund effectively commenced operations on August 18, 2005 through its indirect investment in Canexus LP.

The decrease in equity income for the three months ended December 31, 2005 is due to a decrease in the net income of Canexus LP for the three months ended December 31, 2005 (See "Summary of Quarterly Results" discussion relating to Canexus LP).

liquidity and capital structure

Outstanding Securities of the Fund

At December 31, 2005 and February 24, 2006 the Fund had 31,750,000 Units outstanding.

Nexen holds 50,535,714 Exchangeable LP Units of Canexus LP, each of which is exchangeable into one Fund Unit at no cost at any time at the option of Nexen, and each of which carries a special voting right that entitles the holder to receive notice of, and attend and vote at all meetings of Unitholders of the Fund.

Business Risks

The Fund is entirely dependent on distributions from Canexus LP to make its own distributions. Any decrease in the cash generated by Canexus LP or any requirements for Canexus LP to retain cash for capital or other expenditures will reduce the cash distributions made by Canexus LP to the Fund and as a result will decrease the distributions to Fund Unitholders.

For a discussion of certain risks related to Canexus LP's operations, see the "Market Risk Analysis" discussion relating to Canexus LP. Additional risk factors relating to the Fund and Canexus LP's operations will be contained in the Fund's Annual Information Form for the period ended December 31, 2005, which will be filed on the Fund's profile on the SEDAR website at www.sedar.com prior to March 31, 2006.

Guarantees

The Fund and each of its wholly-owned subsidiaries, Canexus Commercial Trust, Canexus Limited and indirectly, Canexus Holdings Limited, have provided guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP's bank credit facilities.

critical accounting estimates

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Management reviews these estimates on an ongoing basis, including those related to litigation, unit based compensation and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

CANEXUS LIMITED PARTNERSHIP

basis of presentation

Canexus LP is considered to be a continuation of Nexen's Chemicals Business following the continuity of interest method of accounting. Under the continuity of interest method of accounting, Canexus LP's acquisition of the Chemicals Business is recorded at the net book value of the Chemicals Business' assets and liabilities on August 17, 2005 and the equity of Canexus LP represents the equity of the Chemicals Business at that date. These financial statements should be read in conjunction with the audited financial statements of the Chemicals Business included in the Fund's Business Acquisition Report dated November 1, 2005 and available on the Fund's profile on the SEDAR website at www.sedar.com.

The consolidated statements of income and cash flows for the year ended December 31, 2005 reflect the activities of the Chemicals Business (as part of Nexen) from January 1, 2005 to August 17, 2005 and the activities of Canexus LP for the period August 18, 2005 to December 31, 2005. The comparative figures represent the activities of the Chemicals Business.

executive summary

We achieved success in a number of key areas during 2005, with financial results meeting or exceeding our expectations, continued progress on improving our competitive cost position, repositioning of our sales portfolio to improve margins and improved production reliability across our system. Consistent with a strong global economy and balanced supply/demand positions in our market regions, we continue to enjoy favourable market conditions for all our products. While escalating energy costs continue to be a challenge for the bleaching chemicals industry, we are in a favourable position given about 90% of our production utilizes predominantly low-cost hydroelectric power.

Our operating results and cash flows are affected by changes in the Canadian dollar relative to the US dollar. Our North American operations realize a significant portion of their revenue in US dollars with the majority of their costs in Canadian dollars and the majority of our sales in Brazil are under a US dollar based fixed margin contract. To manage this exposure Canexus LP's borrowings under its credit facilities are denominated in US dollars and we incur certain expenses in US dollars. In addition, US dollar foreign exchange options were acquired on US $11 million per month in August, 2005. Under these options Canexus LP is entitled to sell US dollars and acquire Canadian dollars at a price of US $0.813 per Canadian dollar for the period August 24, 2005 to August 9, 2006. These foreign exchange options substantially eliminate Canexus LP's exposure to the US dollar above US $0.813 until August 9, 2006. Commencing December, 2005, Canexus LP began purchasing natural gas in US dollars, further reducing its net exposure to the US dollar. This allowed Canexus LP to sell US $1.5 million per month of foreign exchange options on January 11, 2006 for proceeds of US $667,000.

highlights

- Gross margins increased to 31 per cent from 28 per cent in 2004 as a result of a 24 per cent increase in production from our low-cost Brandon plant and a strong chlor-alkali market, despite the strengthening Canadian dollar and higher energy costs.
- Foreign exchange options contract generated realized gains of $3.0 million and unrealized gains of $1.3 million.

selected annual financial information for the years ended December 31

Cdn$ thousands, except as noted	2005	2004	2003
Sales Volumes			
Sodium Chlorate (000's Metric Tonnes ("MT"))	447	458	434
Chlor-alkali (000's Metric Electro-Chemical Units ("MECU"))	195	199	190
Sales Revenues	397,423	377,933	375,172
Cost of Goods Sold	275,211	273,248	275,130
Gross Margin (1)	122,212	104,685	100,042
Gross Margin (%) (1)	31%	28%	27%
Net Income	54,345	57,162	45,882
Plus: Provision for Income Taxes	3,006	(69)	(283)
Plus: Depreciation and Amortization	50,739	37,100	44,290
Plus: Interest Expense	3,242	–	–
EBITDA (2)	111,332	94,193	89,889
Cash Distributions Declared ($/Unit)	$0.3252	n/a	n/a
Capital Expenditures			
Maintenance Capital Expenditures	14,148	10,957	8,541
Expansion Capital Expenditures	231	46,673	14,103
Total Capital Expenditures	14,379	57,630	22,644
Average Foreign Exchange Rate (Cdn $ to US $)	0.82	0.77	0.71

at December 31	2005	2004	2003
Total Assets	485,127	606,325	584,446
Total Long-Term Liabilities	216,451	45,302	44,596

Notes:

(1) Gross margin is a non-GAAP measure that represents the contribution of operating activities to earnings. It is considered a key measure as it reflects the ability of the business to generate earnings necessary to fund overhead costs, capital investment and distributions. Gross Margin (%) is calculated as Gross Margin divided by Sales Revenues.

(2) EBITDA is a non-GAAP measure that represents earnings generated to fund capital investment, meet financial obligations and fund distributions. It is considered a key measure as it demonstrates the ability of the business to meet its capital and financing commitments.

The operations of Canexus LP currently includes sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; Bruderheim, Alberta; and Nanaimo, British Columbia; a chlor alkali production facility at North Vancouver, British Columbia and a sodium chlorate and chlor alkali production facility in Brazil. The Chemicals Business acquired by Canexus LP on August 18, 2005 does not include the Amherstburg, Ontario facility, which was retained by Nexen and shut down on July 31, 2005. However, the historical financial information in this MD&A includes the results of the Amherstburg facility prior to August 18, 2005.\

In October 2004, the Brandon sodium chlorate plant completed a significant expansion which increased practical production capacity by approximately 33% making it the largest capacity sodium chlorate plant in the world and one of the lowest cost sodium chlorate facilities in North America. The expansion was primarily completed by relocating to Brandon the production capacity that was idled in 2002 at the Taft, Louisiana production facility. Since completion of this expansion in October 2004, the Brandon facility has operated at 100% of practical production capacity.

Gross margin increased by 15%, from 27% in 2003 to 31% in 2005. This increase in gross margin is attributable to the shift of production volumes from higher cost to lower cost facilities and from increases in net realized sales prices for both sodium chlorate and chlor alkali. The North Vancouver scheduled maintenance shutdown in September, 2005 partially offset the benefit of higher chlor-alkali prices, as volumes were reduced during the outage and incremental costs associated with the maintenance work were incurred.

Changes in Net Income 2005 vs 2004

Net Income 2004	57,162
Items Increasing (Decreasing) Net Income	
Sales Revenues	19,490
Cost of Goods Sold	(1,963)
General and Administrative Expenses	(2,445)
Interest Expense	(3,242)
Interest Revenue on Loans to Affiliates	(9,891)
Depreciation and Amortization	(13,639)
Gain on Foreign Exchange Options	4,255
Currency Translation Gain	10,766
Income Taxes	(3,075)
Other	(3,073)
Net Income 2005	54,345

results of operations

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net income for the year ended December 31, 2005 decreased by $2.8 million or 5% over the year ended December 31, 2004. [illegible] ended December 31, 2005 increased by $17.1 million or 18% over the year ended December 31, 2004.

Net Income Increase of $17.5 Million Due to Higher Sales Revenues and Gross Margin Improvement

2005	North America sodium chlorate	North America chlor-alkali	Brazil	Total
Sales Revenues	192,920	136,709	67,794	397,423
Cost of Goods Sold	139,326	89,869	46,016	275,211
Gross Margin	53,594	46,840	21,778	[illegible]
Gross Margin (%) (1)	28%	34%	32%	31%

2004	North America sodium chlorate	North America chlor-alkali	[illegible]	[illegible]
Sales Revenues	207,377	111,399	59,157	377,933
Cost of Goods Sold	153,979	81,293	37,976	273,248
Gross Margin (1)	53,398	30,106	21,181	104,685
Gross Margin (%) (1)	26%	27%	36%	28%

Note:

(1) Gross margin is a non-GAAP measure that represents the contribution of operating activities to earnings. It is considered a key measure as it reflects the ability of the business to generate earnings necessary to fund overhead costs, capital investment and distributions. Gross Margin (%) is calculated as Gross Margin divided by Sales Revenues.

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment decreased 7% from $207.4 million in 2004 to $192.9 million in 2005 primarily due to a decrease in realized sales prices of 3%, as a result of a 6% decline in the value of the US dollar relative to the Canadian dollar over the same period. Gross margin for our North American sodium chlorate business increased by 8% to 28% in 2005 from 26% in 2004. In addition, although our total sodium chlorate production volume increased by 5,100 tonnes in 2005 due to the 24% increase in production volume from our Brandon plant expansion during the fourth quarter of 2004, our sodium chlorate shipments decreased by 5% in 2005. This was due to reduced production at our Bruderheim plant as a result of increased electricity costs in late 2005, the elimination of purchased sodium chlorate for resale and our decision in early 2005 to forego low margin business consistent with our repositioning effort and the closure of the Amherstburg plant by Nexen.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased 23% from $111.4 million in 2004 to $136.7 million in 2005 due to improved chlor-alkali market prices consistent with a very strong global chlor-alkali market. These stronger prices were partially offset by lower chlor-alkali sales volumes which decreased by 9,944 MECU or 6% due to the scheduled North Vancouver plant maintenance shutdown for nine days in September, 2005. There were no major maintenance shutdowns in 2004. Gross margin for the North American chlor-alkali business was 34% in 2005, which increased from 27% in the prior year. Strong sales prices more than offset higher natural gas costs in 2005.

Brazil

Sales revenue in Brazil increased 15% from $59.2 million to $67.8 million with an increase in sodium chlorate shipments of 14% as a result of stronger demand from Aracruz Cellulose S.A., our primary customer in Brazil, combined with increased sales to the merchant market. In addition, our chlor alkali sales volumes increased by 14% as a result of stronger demand from Aracruz Cellulose S.A. Gross margin for our Brazil operations decreased to 32%, from 36% the prior year. This decrease is primarily due to the increase in electricity rates in the country, about 80 per cent of which are passed through to our major customer under our long-term fixed-margin contract, and the expansion of our merchant business which attracts a lower gross margin.

Higher General and Administrative Costs Decreased Net Income by $2.4 Million

General and administrative costs were higher in 2005 as a result of incremental costs associated with Canexus LP becoming a stand-alone entity. The expected additional costs were primarily associated with additional staffing levels as well as costs related to corporate governance, regulatory compliance and external financial reporting.

Interest Expense Decreased Net Income by $3.2 Million

During 2005, the company incurred interest expense on credit facility borrowings drawn to partially fund the acquisition of the Chemicals Business from Nexen Inc. As part of Nexen, the Chemicals Business had no stand-alone borrowings.

Lower Interest Revenue from Affiliates Decreased Net Income by $9.9 Million

Interest on loans to Nexen affiliates decreased in 2005 as all interest-bearing borrowings were repaid and the facilities cancelled in early 2005.

Higher Depreciation Expense Decreased Net Income by $13.6 Million

Depreciation for 2005 includes a $12.1 million impairment charge related to the closure of the Amherstburg, Ontario sodium chlorate plant by Nexen and additional depreciation related to the expansion costs at Brandon.

Gains on Foreign Exchange Options Increased Net Income by $4.3 Million

During 2005, we purchased US dollar foreign exchange options that entitle Canexus to sell US $11 million per month and acquire Canadian dollars at a price of US $0.813 per Canadian dollar. These options protect our cash flows if the Canadian dollar strengthens above US $0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US

dollar below US $0.813. As a result of the strengthening Canadian dollar during 2005, these options generated realized gains of $3.0 million and unrealized fair value gains of $1.3 million.

Gains on Currency Translation Increased Net Income by $10.8 Million

During 2005, the fluctuation in exchange rates resulted in unrealized and realized gains totaling $9.4 million versus a loss of $1.4 million in 2004, on the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies.

Higher Income Taxes Decreased Net Income by $3.1 Million

Income taxes increased in 2005 compared to 2004 due to temporary differences related to Brazil.

Capital Expenditures

Capital expenditures for 2005 were $14.4 million compared to $57.6 million in 2004. The 2004 capital expenditures include $46.7 million of expansion capital primarily related to the capacity addition at Brandon. The capital expenditures for 2005 consisted primarily of maintenance capital expenditures. Maintenance capital expenditures for the year are consistent with expected annual expenditures of approximately $14 million.

summary of quarterly results

Information for the three month period ended December 31, 2005 is that of Canexus LP as a stand-alone entity. Information for the quarter ended September 30, 2005 includes information from both Canexus LP and its predecessor, the Chemicals Business of Nexen, not all of the operations of which were acquired from Nexen. Information for the quarters ended prior to September 30, 2005 is information for the Chemicals Business of Nexen, Canexus LP's predecessor.

				2004				2005
three months ended	**Mar**	**June**	**Sept**	**Dec**	**Mar**	**June**	**Sept**	**Dec**
Sales Revenues	91,858	93,546	97,956	94,573	96,533	99,462	99,524	101,904
Net Income	13,294	7,773	14,696	21,399	15,245	4,454	23,802	10,844

Sales revenues continued to trend upward through 2005 largely due to improvements in market prices for all product lines.

Lower gross margins were experienced in the third and fourth quarters of 2005 due to higher natural gas and electricity costs and the third quarter maintenance shutdown at the North Vancouver plant as well as the strengthening of the Canadian dollar.

Fluctuations in quarterly net income are partially due to changes in realized and unrealized foreign currency gains and losses. On August 18, 2005, US $167,098,337 (Cdn $203,559,159) was drawn on Canexus LP's credit facility to partially fund the acquisition of the Chemicals Business from Nexen Inc. In addition, during August, 2005 Canexus LP acquired US dollar foreign exchange call options on US $11 million per month.

fourth quarter 2005

Sales revenues for the fourth quarter of 2005 of \$101.9 million increased by \$2.4 million from the third quarter of 2005 of \$99.5 million due primarily to higher chlor-alkali sales volumes. The increase in sales volumes was due primarily to lower third quarter sales volumes as a result of the scheduled maintenance shutdown at North Vancouver. Sales revenue for the fourth quarter of 2005 of \$101.9 million increased by \$7.3 million as compared to the fourth quarter of 2004 of \$94.6 million primarily as a result of higher chlor alkali sales volumes and higher average realized sales prices offset by lower chlorate sales volumes. The increase in chlor-alkali sales volumes was the result of increases in demand by Aracruz Cellulose S.A., our primary customer in Brazil, and the merchant market in Brazil. Increases in chlor-alkali sales prices throughout 2005 have occurred as a result of a strong global chlor-alkali market with generally balanced supply and demand.

Net income of \$10.8 million for the fourth quarter has decreased from the third quarter primarily as a result of a change in realized and unrealized foreign currency gains/losses.

outlook

Sodium Chlorate

The supply and demand balance for sodium chlorate in North America is expected to remain balanced to tight. Decreased demand from pulp mills shut down during 2005 has been offset by increased demand from other mills. In addition, some sodium chlorate production capacity that is reliant on high cost electricity, driven by escalating fuel prices, will be curtailed during times of elevated energy costs. North American supply will be permanently reduced when Superior Plus Income Fund ceases production at its Thunder Bay, Ontario plant in early 2006, as announced by Superior. The closure is not anticipated to have a significant impact on Canexus LP.

South America has emerged as a key investment region for the sodium chlorate industry given the significant access to low cost, renewable wood fibre for pulp and paper production, the number of new pulp production expansion projects planned for the region, relatively stable energy prices and supportive government policy. Management believes Canexus LP is well-positioned to take advantage of growth opportunities in South America.

Chlor-alkali

The North American chlor-alkali industry has operated at or near 100% of practical production capacity over the past two years with the exception of the third and fourth quarters of 2005 when hurricane related issues interrupted significant production capacity in the US Gulf Coast. The market in general has experienced some moderation in demand, primarily from the PVC and urethanes segments; however, the overall supply and demand position remains balanced. Approximately 60% of North American production capacity is located in regions that were impacted by Hurricanes Katrina and Rita and many of the facilities were shut down for short periods. As of January 2006, most of this capacity had returned to operation. Sustained high natural gas prices have increased operating costs for chlor alkali producers in a number of high cost regions in 2005. The manufacturing cost increases, combined with generally balanced supply and demand, strengthened market prices in 2005. The current strong prices could moderate in 2006 with a slowdown in the economy or a significant reduction in energy prices.

liquidity and capital structure

	2005	2004
Net Debt [1]		
Bank Debt	171,387	–
Less: Cash and Cash Equivalents	(4,549)	(863)
Less: Non-Cash Working Capital	(47,322)	(66,862)
Total Net Debt	119,516	(67,725)
Total Equity [2]	225,378	434,817

Notes:

[1] Includes all debt and is calculated as long-term debt less working capital.

At December 31, 2005, there were 31,750,000 Ordinary LP Units (held indirectly by the Fund) and 50,535,714 Exchangeable LP Units outstanding. The Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) at no extra cost for Fund Units at the option of Nexen Inc. at any time.

Liquidity

The acquisition of the Chemicals Business from Nexen Inc. was structured to provide Canexus LP with working capital on August 18, 2005 of $75 million plus a $14 million restricted fund to be used for future site remediation and asset retirement obligations.

During the periods presented, Canexus LP consistently generated positive cash flows from operating activities. Cash generated from operating activities was used to fund capital expenditures and remaining excess cash was used to repay debt. Prior to August 18, 2005 cash not required for ongoing operations flowed to Nexen.

The following table provides an overview of Canexus LP's cash flows each year:

	2005	2004	change
Cash Flow from Operating Activities	96,434	83,732	12,702
Cash Flow from (used in) Financing Activities	401,467	(20,710)	422,177
Cash Flow used in Investing Activities	(493,990)	(60,877)	(433,113)

Cash Flow from Operating Activities

Cash from operating activities is generated primarily from the sale of sodium chlorate and chlor-alkali products and is reduced by the purchase of raw materials and utilities, as well as transportation, labour costs and general and administrative expenditures. Stronger chlor-alkali selling prices combined with increased capacity at the low-cost Brandon sodium chlorate facility that came on-stream in October 2004 have resulted in increased cash generated from operating activities. In 2005, cash from operating activities also includes a cash outflow of $4.2 million for the purchase of the foreign exchange options contract.

Cash Flow from (used in) Financing Activities

The change in cash from financing activities is comprised of:	
Debt acquired to partially finance the purchase of the Chemicals Business from Nexen	203,559
Issuance of Ordinary LP Units, net	301,750
Debt repayments, net	(23,324)
Repurchase and cancellation of Exchangeable LP Units from Nexen	(17,500)
Distributions to Unitholders	(20,764)
Payments to Nexen Inc. and affiliates	(21,532)
Other	(12)
	422,177

Cash Flow from (used in) Investing Activities

The change in cash from investing activities is comprised of:	
Purchase of the Chemicals Business from Nexen	(484,250)
Increased Maintenance Capital Expenditures	(3,191)
Decreased Expansion Capital Expenditures	46,442
Changes in Non-Cash Working Capital	7,057
Other	829
	(433,113)

Future Liquidity

The future liquidity of Canexus LP will be primarily dependent on cash flows from operating activities which will be used to finance its ongoing maintenance capital expenditures, distributions to Unitholders and normal course financial commitments. Cash flows are sensitive to changes in sales prices, electricity costs and foreign currency exchange rates and any changes in these will impact future liquidity. Management believes cash flows from operating activities will be sufficient for Canexus LP to meet future obligations and commitments that arise in the normal course of its business activities.

Debt Covenants

At December 31, 2005 Canexus LP was compliant with all debt covenants contained in its credit facility agreement.

Capital Expenditures

Canexus LP did not have any commitments for non-maintenance capital expenditures at December 31, 2005 and does not have any such commitments as of the date hereof. Management anticipates ongoing annual maintenance capital expenditures of approximately $14 million, which will be financed primarily out of cash flows from operating activities. Additional growth opportunities, including production de-bottlenecking opportunities or technology conversion opportunities, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, bank debt and issuances of Trust Units or other securities of the Fund.

On August 18, 2005 Canexus LP entered into a $350 million four year revolving credit facility with a syndicate of financial institutions and drew down the US dollar equivalent of $203 million Canadian, $200 million of which was used to fund a portion of the purchase price for the Chemicals Business. At December 31, 2005, $171.4 million was outstanding on the credit facility. The credit facility may also be used to fund future acquisitions and capital expenditures.

Summary of Contractual Obligations

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. These obligations and commitments have been considered in the above discussion of future liquidity. At December 31, 2005 these obligations and commitments were as follows:

payments	total	<1 year	1-3 years	4-5 years	>5 years
Operating Leases (1) (2)	47,236	12,372	19,269	11,856	3,739
Asset Retirement Obligations (3)	72,758	1,017	1,183	–	70,558
Long-Term Debt (4)	171,387	–	–	171,387	–
Total	291,381	13,389	20,452	183,243	74,297

See page 30 for Notes

Notes:

(1) Payments for operating leases are included in cash flow from operating activities.

(2) Operating leases include minimum lease payment obligations associated with leases for office space, rail cars and vehicles.

(3) As at December 31, 2005, undiscounted asset retirement obligations are $73 million. The estimated fair value ($39.8 million) of these obligations has been provided for in Canexus LP's consolidated financial statements. The timing of any payments is difficult to determine with certainty and have been included in the table above using best estimates. Canexus LP has $13.7 million of restricted investments to be used for future site remediation and asset retirement obligations.

(4) Long-Term Debt amounts are included in Canexus LP's December 31, 2005 consolidated balance sheet. These balances will fluctuate and do not have fixed repayment terms. Interest is payable on outstanding balances at rates which vary depending on the consolidated debt to EBITDA ratio of Canexus LP and may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Interest payments have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates.

(5) Purchase arrangements made in the ordinary course of business have been excluded as they are discretionary.

(6) Future income tax liabilities have been excluded as the amount and timing of any cash payments for income taxes are based primarily on taxable income for each fiscal year in the various operating jurisdictions.

(7) Liabilities for unfunded pension and other post-retirement benefit obligations have been included in the December 31, 2005 consolidated balance sheet. These obligations have not been included in the above table due to the uncertainty related to the amount and timing of any payments.

From time to time Canexus LP enters into contracts, particularly relating to the sale of products in the ordinary course that require it to indemnify parties against possible claims. On occasion, Canexus LP provides indemnifications to the purchaser. The overall maximum amount cannot be reasonably estimated. No significant payments have been made related to these indemnifications. Management does not expect that these matters would have a material adverse effect on Canexus LP's liquidity, consolidated financial position or results of operation.

Contingent Liabilities

In the normal course of business, Canexus LP is subject to lawsuits and claims. Management believes the resolution of these matters will not have a material adverse effect, individually or in the aggregate, on Canexus LP's liquidity, consolidated financial position or results of operations. Canexus LP records costs as they are incurred or become determinable. Additionally, the income tax filings of taxable legal entities included in the companies comprising Canexus LP are subject to audit by taxation authorities. There are audits in progress and items under review, some of which may increase Canexus LP's tax liability. While the results of these items cannot be ascertained at this time, management believes that Canexus LP has an adequate provision for income taxes based on available information. Canexus LP is indemnified by Nexen for any claims for such income tax re-assessments for periods prior to August 18, 2005.

Guarantees

On August 18, 2005, we entered into a Credit Facility with a syndicate of financial institutions. The Credit Facility consists of a $350 million, four year revolving facility a portion of which was used to acquire the Chemicals Business and can otherwise be used for general purposes, including future acquisitions and capital expenditures. The Credit Facility is available for drawdown during the revolving period. The Credit Facility bears interest at rates that vary depending on the consolidated debt to earnings before interest, income taxes, depreciation and amortization (EBITDA) ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We may drawdown the Credit Facility in either Canadian or US dollars. Short-term Swing Line Loans of up to $20 million Canadian are available under the Credit Facility provided that the aggregate principal outstanding under the Credit Facility does not exceed $350 million Canadian. The Credit Facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests, and subordination agreements.

market risk analysis

Canexus LP is exposed to normal market risks inherent in the chemicals business. Included in the risks faced by Canexus LP are product price risk, electricity price risk, foreign currency rate risk and credit risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in Canexus Income Fund's Annual Information Form for the period ended December 31, 2005, which will be filed on the Fund's SEDAR profile at www.sedar.com prior to March 31, 2006.

Product Price Risk

Product price risk related to sodium chlorate and chlor alkali products is a significant market risk exposure. For every $10 change in the price per metric tonne (MT) of North American produced sodium chlorate, sales revenue would change by $4 million per year. For every $10 change in the price per metric electrochemical unit (MECU) of chlor alkali products produced in North America, sales revenue would change by $1.5 million per year.

These sensitivities to changes in prices assume annual North American sodium chlorate sales of 400,000 MT and annual North American chlor-alkali sales of 150,000 MECU.

Electricity Price Risk

The cost of electricity is a key production cost. For every 1% change in the price of electricity, operating costs would change by $1 million per year. This sensitivity to changes in electricity prices is based on estimated annual electricity consumption of 3 million megawatt hours (MWh).

Canexus LP has used forward swap contracts to manage its exposure to the price of electricity in deregulated regions. The impact of these forward swap contracts is not material to Canexus LP.

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sales of certain chemicals products into the US market as well as the majority of sales in Brazil. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. Accordingly, an increase in the exchange rate of the Canadian dollar against the US dollar will have a negative effect on Canexus LP's earnings.

The Canadian/US dollar exchange rate averaged US $0.82 during 2005 with a high of US $0.88 and a low of US $0.79. During 2004 the rate averaged US $0.77 with a high of US $0.85 and a low of US $0.72. For every US $0.01 increase in the Canadian/US dollar exchange rate, net income before taxes would decrease by $1.5 million per year, before the impact of hedging instruments.

To manage the exposure to the Canadian/US exchange rate, Canexus LP has entered into US dollar denominated debt and incurs other expenses in US dollars. In addition, during August 2005, Canexus LP acquired US dollar foreign exchange options on US $11 million per month. Under these options Canexus LP is entitled to sell US dollars and acquire Canadian dollars at a price of US $0.813 per Canadian dollar for the period August 24, 2005 to August 9, 2006. These options were designed to protect our cash flows if the Canadian dollar strengthens above US $0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar. These foreign exchange option contracts substantially eliminated Canexus LP's exposure to the US dollar above US $0.813 until August 9, 2006. Commencing December 2005, Canexus LP began purchasing natural gas in US dollars reducing its net exposure to the US dollar. This allowed Canexus LP to sell US $1.5 million per month of the US $11 million per month of foreign exchange options on January 11, 2006 for proceeds of US $667,000.

Canexus LP does not have any material exposure to highly inflationary foreign currencies.

Credit Risk

Credit risk is the risk of loss if counterparties do not fulfil their contractual obligations. Most of Canexus LP's receivables are with counterparties in the pulp and paper industry, water treatment and oil and gas industries and are subject to normal industry credit risk. The following precautions are taken to reduce this risk:

- the financial strength of counterparties is assessed through a rigorous credit process;
- the total exposure extended to individual counterparties is limited, and collateral may be required from some counterparties;
- credit risk exposures are routinely monitored, including sector, geographic and corporate concentrations of credit;
- credit limits are set based on rating agency credit ratings and internal assessments based on company and industry analysis; and
- counterparty credit limits are reviewed regularly.

The majority of Canexus LP's Brazilian production is sold to Aracruz Cellulose S.A. under a long-term sales agreement. Amounts receivable from Aracruz Cellulose S.A. represent approximately 12% of Canexus LP's total accounts receivable at December 31, 2005 (2004 – 10%).

derivative financial instruments and off-balance sheet arrangements

During August 2005, Canexus LP acquired US dollar foreign exchange options on US $11 million per month. Under these options, Canexus LP is entitled to sell US dollars and acquire Canadian dollars at a price of US $0.813 per Canadian dollar. These options were designed to protect our cash flows if the Canadian dollar strengthens above US $0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar. These options expire on August 9, 2006. Commencing December 2005, Canexus LP began purchasing natural gas in US dollars, further reducing its net exposure to the US dollar. This allowed Canexus LP to sell US $1.5 million per month of foreign exchange options on January 11, 2006 for proceeds of US $667,000.

From time to time Canexus LP utilizes forward swap contracts to manage our exposure to the price of electricity in Alberta. At December 31, 2005, 17,360 MWh was contracted for the month of January 2006 at a weighted average price of $62.21 per MWh. At February 24, 2006, the following MWh have been contracted:

electricity forward swap contracts	volumes (MWh)	month	price (Cdn$/MWh)
	11,200	February 2006	72.90
	7,440	March 2006	78.00
	3,600	April 2006	60.90
	3,720	May 2006	60.90
	3,600	June 2006	60.90
	29,560		69.75

transactions with related parties

All material inter-company accounts and transactions within the operations of Canexus LP have been eliminated. Divisional equity as set forth on Canexus LP's consolidated balance sheet represents net investments made by Nexen and its non-chemicals affiliates in the operations of Canexus LP. Amounts due to affiliates and due from affiliates set forth on Canexus LP's consolidated balance sheet at December 31, 2004 represent financing activities involving Nexen's non-chemical affiliates. These amounts were settled and discontinued prior to August 17, 2005.

On August 18, 2005 we entered into a Transition Services Agreement with Nexen whereby they provide certain services to assist in the transition of our business to a stand-alone entity. This agreement provides that, for a period of up to 18 months, Nexen will provide Canexus with certain requested administrative, operating and financial services in the same manner provided by Nexen for the 12 month period prior to August 18, 2005. These services are provided by Nexen on a cost-reimbursement basis including reimbursement of Nexen internal costs. We have agreed to take reasonable steps to become self sufficient with respect to the subject services as soon as possible, such that some or all of the subject services may not be required for the entire 18 month term of the agreement. During 2005 we incurred $2.5 million of costs under this Transition Services Agreement. Other amounts due to affiliates at December 31, 2005 relate to expenses incurred in the normal course of our operations.

Canexus LP purchases some of its natural gas and electricity requirements from a Nexen affiliate. For the period August 18, 2005 to December 31, 2005 Canexus LP incurred $9,222,270 for these purchases.

critical accounting estimates

There are a number of critical estimates underlying the accounting policies applied in the preparation of the consolidated financial statements. These critical estimates are discussed below.

Impairment of Long Lived Assets

Canexus LP evaluates its chemical assets for impairment if an adverse event or change occurs. Among other things, this might include falling sales prices for chemical products, changes in operating costs, or significant or adverse political or legal changes. If one of these occurs, undiscounted future cash flows for the assets are estimated to determine if the assets are impaired. If the undiscounted future cash flows for the assets are less than the carrying amount of the assets, the fair value of the assets is calculated using a discounted cash flow approach. The assets would then be written down to their fair value.

Canexus LP's assets were assessed for impairment at the end of 2005 and no impairment was found based on future cash flow estimates used.

Cash flow estimates used for purposes of impairment assessments require assumptions about three primary elements – future sales prices, sales volumes and operating costs. Estimates of future sales prices require significant judgements about highly uncertain future events. Sales price forecasts used to assess impairment are based on prices derived from future price forecasts from industry sources and assessments made by Canexus LP. Estimates of future operating costs are made by Canexus LP. Given the significant assumptions required and the possibility that actual conditions will differ, the assessment of impairment is considered to be a critical accounting estimate. Any impairment charges would lower net income.

Asset Retirement Obligations

Canexus LP is required to remove or remedy the effect of its activities on the environment at its operating sites by dismantling and removing production facilities and to remediate any damage caused. Estimating future asset retirement obligations requires estimates and judgments to be made with respect to activities that will occur many years into the future. In addition, the ultimate financial impact of environmental laws and regulations is not always clearly known and cannot be reasonably estimated as standards evolve in the countries in which Canexus LP operates.

Asset retirement obligations are recorded in the consolidated financial statements of Canexus LP by discounting, to the present value, the estimated retirement obligations associated with its chemical plants using a credit-adjusted risk free rate of 5.4%. In arriving at amounts recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The present value of expected asset retirement obligations recorded result in an increase to the carrying cost of property, plant and equipment which is amortized over the useful life of the underlying PP&E. The asset retirement obligation accretes until the time the retirement obligation is expected to settle.

A change in any one of the assumptions could impact the asset retirement obligations, property, plant and equipment and net income.

It is difficult to determine the impact of a change in any one of the assumptions. As a result, Canexus LP is unable to provide a reasonable sensitivity analysis of the impact a change in assumptions would have on its financial results. However, management of Canexus LP believes that the assumptions it has made are reasonable.

controls and procedures

As of December 31, 2005, an evaluation was carried out, under the supervision of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined under Multilateral Instrument 52-109 of the Canadian securities regulatory authorities. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

new accounting pronouncements

In an effort to harmonize Canadian GAAP with US GAAP, the Canadian Accounting Standards Board (the "AcSB") has issued standards relating to:

- Comprehensive Income;
- Financial Instruments – Recognition and Measurement; and
- Hedges.

Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives.

Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exception of gains and losses arising from:

- financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- certain financial instruments that qualify for hedge accounting.

Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income. Unrealized gains and losses on qualifying hedging instruments, translation of self-sustaining foreign operations, and unrealized gains or losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standards.

These new standards are effective for fiscal years beginning on or after October 1, 2006 and early adoption is permitted. Adoption of these standards is not expected to have a material effect on Canexus LP's results of operations or financial position.

The AcSB has approved revisions to the Non-Monetary Transactions standard. This will require all non-monetary transactions to be measured at fair value unless:

- the transaction lacks commercial substance;
- the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange;
- neither the fair value of the assets or services received nor the fair value of the assets or services given up is reliably measurable; or
- the transaction is a non-monetary, non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation.

The new requirements apply to non-monetary transactions initiated in periods beginning on or after January 1, 2006. Earlier adoption is permitted as of the beginning of a period beginning on or after July 1, 2005. Management of Canexus LP does not expect the adoption of this section to have any material impact on its results of operations or financial position.

In December 2005, the CICA's Emerging Issues Committee issued Abstract 159, Conditional Asset Retirement Obligations (EIC-159). EIC-159 clarifies that the term conditional asset retirement obligation, as used in CICA Handbook Section 3110, Asset Retirement Obligations refers to a legal obligation to perform an asset retirement activity where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. EIC-159 also clarifies when there would be sufficient information to reasonably estimate the fair value of an asset retirement obligation. EIC-159 is effective for interim and annual reporting periods ending after March 31, 2006. Management of Canexus LP does not expect the adoption of this section will have any material impact on our results of operations or financial position.

forward-looking statements and information

This MD&A contains forward looking statements and information relating to expected future events and financial and operating results of the Fund, Canexus LP and its subsidiaries that involve risks and uncertainties. The use of the words "expects", "anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Fund's Annual Information Form for the period ended December 31, 2005, which will be filed on the Fund's SEDAR profile at www.sedar.com prior to March 31, 2006. Management believes the expectations reflected in these forward looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements should not be unduly relied upon. Due to the potential impact of these factors, the Fund and Canexus LP disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

February 24, 2006

TO THE UNITHOLDERS OF CANEXUS INCOME FUND:

We are responsible for the preparation and fair presentation of the consolidated financial statements, as well as the financial reporting process that gives rise to such consolidated financial statements. This responsibility requires us to make accounting judgments and estimates which are made after consideration of the information available. Fulfilling this responsibility requires the preparation and presentation of our consolidated financial statements in accordance with generally accepted accounting principles in Canada.

We also have responsibility for the preparation and fair presentation of other financial information in this report and to ensure the consistency of this information with the financial statements. We are responsible for the development and implementation of internal controls over the financial reporting process. These controls are designed to provide reasonable assurance that relevant and reliable financial information is produced. We believe that our internal controls over financial reporting provide reasonable assurance that our assets are safeguarded against loss from unauthorized use or disposition, that receipts and expenditures of Canexus Income Fund are made only in accordance with authorization of management and directors of Canexus Limited, administrator of Canexus Income Fund, and that our records are reliable for preparing our consolidated financial statements and other financial information in accordance with applicable generally accepted accounting principles and in accordance with applicable securities rules and regulations. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Board of Directors of Canexus Limited, administrator of Canexus Income Fund, is responsible for reviewing and approving the consolidated financial statements and for overseeing management's performance of its financial reporting responsibilities. Their financial statement related responsibilities are fulfilled mainly through an Audit Committee. The Audit Committee is composed entirely of independent directors, and includes three directors with financial expertise. The Audit Committee meets regularly with management and the independent auditors, to review accounting policies, financial reporting and internal control issues and to ensure each party is properly discharging its responsibilities. The Audit Committee is responsible for the appointment and compensation of the independent auditors and also considers their independence, reviews their fees and (subject to applicable securities laws), pre-approves their retention for any permitted non-audit services and their fee for such services. The independent auditors have full and unlimited access to the Audit Committee, with or without the presence of management.

Gary L. Kubera
President and Chief Executive Officer

Richard T. McLellan
Senior Vice President, Finance
and Chief Financial Officer

auditors' report

February 24, 2006

TO THE UNITHOLDERS OF CANEXUS INCOME FUND:

We have audited the consolidated balance sheet of Canexus Income Fund (the "Fund") as at December 31, 2005 and the consolidated statements of income, cash flows and unitholders' equity for the period from June 28, 2005 to December 31, 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations and its cash flows for the period from June 28, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants

for the period from June 28, 2005 to December 31, 2005

Cdn$ thousands, except per unit amounts	2005
Equity Income from Investment in Canexus Limited Partnership	11,518
Trust Administration Expenses	100
Unit Based Compensation *(Note 8)*	393
Net Income	11,025
Earnings Per Unit	0.35
Diluted Earnings Per Unit	0.35

See accompanying notes to the Consolidated Financial Statements

consolidated balance sheet
canexus income fund

at December 31, 2005

Cdn$ thousands	2005
Assets	
Current Assets	
Cash and Cash Equivalents	2
Distribution Receivable from Canexus Limited Partnership	2,315
Total Current Assets	2,317
Investment in Canexus Limited Partnership *(Note 5)*	318,690
Total Assets	321,007
Liabilities and Equity	
Current Liabilities	
Accounts Payable and Accrued Liabilities	75
Due to Affiliates	25
Distribution Payable to Unitholders *(Note 7)*	2,314
Total Current Liabilities	2,414
Equity	
Unitholders' Equity *(Note 6)*	318,200
Contributed Surplus *(Note 8)*	393
Total Equity	318,593
Total Liabilities and Equity	321,007

See accompanying notes to the Consolidated Financial Statements

Approved on behalf of the Board of Canexus Limited, Administrator of Canexus Income Fund:

Gary L. Kubera
Director

Doug Hayhurst

Douglas P. Hayhurst
Director

for the period from June 28, 2005 to December 31, 2005

Cdn$ thousands	2005
Operating Activities	
Net Income	11,025
Charges and Credits to Income Not Involving Cash	
Equity Income from Investment in Canexus Limited Partnership	(11,518)
Distributions Received from Canexus Limited Partnership	8,013
Unit Based Compensation *(Note 8)*	393
Change in Non-Cash Working Capital	100
	8,013
Financing Activities	
Issuance of Fund Units	317,500
Distributions Paid	(8,011)
	309,489
Investing Activities	
Investment in Canexus Limited Partnership	(317,500)
Increase in Cash and Cash Equivalents	2
Cash and Cash Equivalents – Beginning of Period	–
Cash and Cash Equivalents – End of Period	2

See accompanying notes to the Consolidated Financial Statements

consolidated statement of unitholders' equity
canexus income fund

for the period from June 28, 2005 to December 31, 2005

Cdn$ thousands	**2005**
Issued Pursuant to Initial Public Offering	300,000
Issued Pursuant to Over-Allotment Option	17,500
Net Income	11,025
Distributions Paid	(8,011)
Distributions Payable	(2,314)
Unitholders' Equity	318,200

See accompanying notes to the Consolidated Financial Statements

for the period from June 28, 2005 to December 31, 2005

all tabular amounts in Cdn$ thousands, except as noted

1. organization and business of the fund

Canexus Income Fund (the "Fund") is an unincorporated open-ended trust established by the Fund Trust Indenture, as amended and restated August 18, 2005, under the laws of Alberta. The Fund is a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The head office and principal business office of the Fund is located in Calgary, Alberta.

Pursuant to an underwriting agreement dated August 10, 2005 and initial public offering ("IPO"), the Fund sold 30,000,000 units of the Fund ("Fund Units", "Units", or "Unit"), at a price of $10.00 per unit, for proceeds totaling $300,000,000. The proceeds of the offering were used to partially fund the indirect acquisition (through the Fund's wholly-owned subsidiary, Canexus Commercial Trust) by the Fund of a 36.5% interest in Canexus Limited Partnership ("Canexus LP"). In addition, the Fund granted the underwriters an option, exercisable for a period of 30 days from the closing of the offering on August 18, 2005, to purchase up to an additional 3,000,000 Fund Units at the offering price.

Pursuant to a purchase and sale agreement dated August 18, 2005, Canexus LP and certain direct and indirect subsidiaries of Canexus LP acquired the sodium chlorate and chlor-alkali chemicals business ("Chemicals Business") from Nexen Inc. and certain direct and indirect subsidiaries of Nexen Inc., for cash consideration of $484,250,000 and by issuing 52,285,714 exchangeable limited partnership units ("Exchangeable LP Units") of Canexus LP to Nexen Inc., representing a 63.5% controlling interest in Canexus LP. Canexus LP financed the cash consideration paid in the acquisition by borrowing the US dollar equivalent of $200,000,000 under its credit facility and by using the proceeds from the investment made in Canexus LP by the Fund. The Exchangeable LP Units retained by Nexen Inc. are exchangeable on a one for one basis for Units of the Fund at any time at the option of Nexen Inc. Canexus LP is managed by Canexus Limited, the general partner, which holds a 0.01% interest in Canexus LP. The Fund owns 100% of the shares of Canexus Limited, the general partner ("General Partner"), but does not account for its investment on a consolidated basis due to Nexen Inc. having the ability to appoint a majority of the board positions. Canexus Limited is the administrator of the Fund.

The Ordinary LP Unitholders and the Exchangeable LP Unitholder of Canexus LP are entitled to one vote for each unit held at all meetings of holders of the LP units and have economic rights that are equivalent in all material respects, except that Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) for Fund Units at the option of the holder at any time. Additionally, Exchangeable LP Units have Special Voting Rights that entitle the holder to receive notice of, attend and to vote at all meetings of Unitholders of the Fund.

The Fund effectively commenced operations through its indirect investment in Canexus LP on August 18, 2005, and income recorded by the Fund commenced on that date. Accordingly, income reported for the period ended December 31, 2005 represents 136 days of operations and is therefore not representative of typical annual operating results.

On September 16, 2005, the underwriters exercised a portion of their over-allotment option to purchase 1,750,000 Fund Units at $10.00 per Unit for proceeds of $17,500,000, which was then used to indirectly acquire an additional 2.1% interest in Canexus LP. Canexus LP then used the $17,500,000 to repurchase for cancellation 1,750,000 Exchangeable LP Units from Nexen Inc. Following exercise of the overallotment option, the Fund indirectly holds a 38.6% interest in Canexus LP and Nexen Inc. holds a 61.4% controlling interest in Canexus LP.

2. significant accounting policies

These Consolidated Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In the opinion of management, the Consolidated Financial Statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund's financial position at December 31, 2005 and the results of its operations and cash flows for the period from June 28, 2005 to December 31, 2005.

(a) Income Taxes

These Consolidated Financial Statements do not reflect any provision for income taxes as the Fund intends to distribute to its unitholders substantially all of its taxable income and the Fund intends to comply with the provisions of the Income Tax Act (Canada) that permit, amongst other items, the deduction of distributions to unitholders, from the Fund's taxable income.

(b) Use of Estimates

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and revenues and expenses during the reporting period. Management reviews these estimates on an ongoing basis, including those related to litigation, unit based compensation and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

(c) Accounting for Investments in Canexus LP and Canexus Limited

The Fund accounts for its investments in Canexus LP and Canexus Limited using the equity method.

(d) Unit Based Compensation

The Fund has unit based compensation in the form of options, deferred trust units and bonus rights. Management uses the fair-value method to recognize compensation expense associated with these instruments. Compensation expense for these instruments is based on estimated fair values at the time of grant. Compensation expense is recognized over the vesting period or the expected term of service, as applicable, with a corresponding increase to contributed surplus.

3. fund units

The Fund may issue an unlimited number of Units for consideration and on the terms and conditions as determined by the directors of the General Partner. Each Fund Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund. All Fund Units are of the same class and have equal rights and privileges.

In connection with the initial public offering and the over-allotment option, the Fund issued 30,000,000 Fund Units on August 18, 2005 and 1,750,000 Fund Units on September 16, 2005 for $10.00 each. As a result, at December 31, 2005, the total number of Units issued and outstanding was 31,750,000 for total consideration of $317,500,000.

Under the terms of the Exchange, Voting and Registration Rights Agreement dated August 18, 2005, the Exchangeable LP Units held by Nexen Inc. are exchangeable for Fund Units on a one-for-one basis. The Fund has reserved 50,535,714 Units for the exchange of the Exchangeable LP Units.

Fund Units are redeemable at any time on demand by the unitholder. The redemption price per Unit is equal to the lessor of:

- 90% of the weighted average trading price per Unit during the last 10 days on the principal exchange on which the Units are listed; or
- An amount equal to:
  - (a) the closing price of the Units on the date on which the Units were tendered for redemption, on the principal stock exchange on which the Units are listed if there was a trade on the date on which the Units were tendered for redemption and the stock exchange or market provides a closing price;
  - (b) the average of the highest and lowest prices of the Units on the date on which the Units were tendered for redemption, on the principal exchange on which the Units are listed if there was trading on the date on which the Units were tendered for redemption and the exchange or other market provides only the highest and lowest trade prices of the Units traded on a particular day; or
  - (c) the average of the last bid and ask prices quoted in respect of the Units on the principal exchange on which the Units are listed if there was no trading on the date on which the Units were tendered for redemption.

4. earnings per unit

Earnings per Unit are calculated using net income divided by the weighted average number of Fund Units outstanding. Diluted earnings per Unit are calculated in the same manner as basic earnings per Unit, except the weighted average number of diluted Fund Units outstanding is used as the denominator.

for the period from June 28, 2005 to December 31, 2005	
Weighted average number of Fund Units outstanding	31,376,838
Units issuable pursuant to deferred trust units and bonus rights	19,261
Units issuable pursuant to options and bonus rights	16,387
Units to be purchased from proceeds of options, deferred trust units and bonus rights	(15,063)
Weighted average number of diluted Fund Units outstanding	31,397,423

During the period presented, outstanding options, deferred trust units and bonus rights were the only potential dilutive instruments. In calculating the weighted average number of diluted Fund Units outstanding for the period ended December 31, 2005, 19,000 deferred trust units and 261 corresponding weighted average bonus rights and 16,367 weighted average unit options and 20 corresponding weighted average bonus rights were included. We excluded 570,000 unit options and corresponding bonus rights as their exercise price was greater than the average Unit trading price and corresponding distributions declared.

5. investment in canexus lp

	Number of Ordinary LP Units	2005
Investment Pursuant to IPO	30,000,000	300,000
Investment Pursuant to Over-Allotment Option	1,750,000	17,500
Equity Income from Investment in Canexus LP		11,518
Distributions Received from Canexus LP		(8,013)
Distributions Declared by Canexus LP		(2,315)
	31,750,000	318,690

6. unitholders' equity

	Number of Units	2005
Investment Pursuant to IPO	30,000,000	300,000
Investment Pursuant to Over-Allotment Option	1,750,000	17,500
Net Income		11,025
Distributions Paid to Unitholders		(8,011)
Distributions Declared to Unitholders		(2,314)
	31,750,000	318,200

7. cash distributions

The Fund pays monthly distributions to its unitholders of record on the last business day of each month approximately 15 days after the end of each month. The table below shows the cumulative distributions to unitholders:

period ended	$/Unit	Amount
Distributions Paid		
September 30, 2005 [1]	0.1065	3,381
October 31, 2005	0.0729	2,315
November 30, 2005	0.0729	2,315
Distributions Payable		
December 31, 2005	0.0729	2,314
Total Distributions	0.3252	10,325

Note:

[1] Distribution of 0.1065 was for the period August 18, 2005 to September 30, 2005.

8. unit based compensation

The Fund has unit based compensation in the form of options, bonus rights and deferred trust units. The Fund has a Trust Unit Incentive Plan and a Directors' Deferred Trust Unit Compensation Plan under which Units may be issued in accordance with such plans.

(a) Trust Unit Incentive Plan

We have granted options and corresponding bonus rights to officers and employees under the Trust Unit Incentive Plan.

Each option permits the holder to purchase one Fund Unit at a stated exercise price. The options granted vest over three years and are exercisable on a cumulative basis over five years. At the time of grant, the exercise price equaled the market price.

Each bonus right may be redeemed on, or in some cases for a period after, the date of exercise of the corresponding option, to receive additional Units to reflect the notional reinvestment of distributions that would have been paid on the Unit underlying an option from the date of grant of the option.

Under the terms of the Trust Unit Incentive Plan, at all times, 5% of the issued and outstanding Units are reserved and available for issuance upon the exercise of options and exercise of bonus rights (December 31, 2005 – 1,587,500 units).

The following options have been granted:

for the period from June 28, 2005 to December 31, 2005	Number of Options	Weighted Average Exercise Price ($/option)
Balance at Beginning of Period	–	–
August 18, 2005	570,000	10.00
November 28, 2005	10,000	8.13
December 9, 2005	82,000	8.33
Balance at End of Period	662,000	9.76

At December 31, 2005 accumulated bonus rights corresponding to options granted are 21,278 Units.

There are no exercisable options or bonus rights.

The estimated weighted average fair value of Unit options issued is $1.82/Unit option using the Generalized Black Scholes option pricing model under the following assumptions:

	2005
Risk-Free Interest Rate (%)	3.85
Estimated Hold Period Prior to Exercise (years)	5
Volatility in the Price of Canexus Income Fund Units (%)	32.2
Expected Annual Distributions per Fund Unit ($/unit	0.8748

(b) Deferred Trust Unit Compensation Plan (the "DTUCP")

On August 18, 2005, 19,000 Deferred Trust Units and corresponding bonus rights were granted to directors under the Deferred Trust Unit Compensation Plan.

An aggregate of 200,000 Units are reserved and available for issuance under the DTUCP.

9. related party transactions

Canexus Limited as administrator of Canexus Income Fund, the General Partner of Canexus LP and indirectly, the Trustee of Canexus Commercial Trust, incurs expenditures on behalf of these entities for which it is reimbursed at cost.

auditors' report

February 24, 2006

TO THE PARTNERS OF CANEXUS LIMITED PARTNERSHIP:

We have audited the consolidated balance sheets of Canexus Limited Partnership (the "Partnership") as at December 31, 2005 and 2004 and the consolidated statements of income, cash flows and equity for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants

consolidated statements of income

canexus limited partnership

for the years ended December 31

Cdn$ thousands	2005 (Note 2a)	2004 (Note 2a)
Revenues		
Sales	397,423	377,933
Interest on Loans to Affiliates *(Note 16)*	696	10,587
	398,119	388,520
Expenses		
Cost of Goods Sold	275,211	273,248
Depreciation and Amortization	50,739	37,100
General and Administrative	26,491	24,046
Interest	3,242	–
	355,683	334,394
Income before Other Income and Income Taxes	42,436	54,126
Other Income *(Note 12)*	14,915	2,967
Income before Income Taxes	57,351	57,093
Provision for Income Taxes *(Note 15)*		
Current	(50)	270
Future	3,056	(339)
	3,006	(69)
Net Income	54,345	57,162

See accompanying notes to the Consolidated Financial Statements

at December 31

Cdn$ thousands	2005 (Note 2a)	2004 (Note 2a)
Assets		
Current Assets		
Cash and Cash Equivalents	4,549	863
Accounts Receivable	47,141	52,058
Inventories and Operating Supplies *(Note 4)*	32,468	31,235
Due from Affiliates *(Note 16)*	1,395	106,030
Other *(Note 5)*	9,616	3,745
Total Current Assets	95,169	193,931
Property, Plant and Equipment, Net *(Note 6)*	371,076	407,971
Restricted Investments *(Note 7)*	13,686	–
Future Income Tax Assets *(Note 15)*	5,093	3,751
Other Assets	103	672
Total Assets	485,127	606,325

See accompanying notes to the Consolidated Financial Statements

Continued page 52

consolidated balance sheets *(continued)*

canexus limited partnership

at December 31

Cdn$ thousands	2005 *(Note 2a)*	2004 *(Note 2a)*
Liabilities and Equity		
Current Liabilities		
Accounts Payable and Accrued Liabilities	36,943	33,798
Distributions Payable to Ordinary LP Unitholders	2,316	–
Distributions Payable to Nexen Inc., Exchangeable LP Unitholder	3,684	–
Accrued Interest Payable	355	–
Due to Affiliates *(Note 16)*	–	92,408
Total Current Liabilities	43,298	126,206
Long-Term Debt *(Note 9)*	171,387	–
Future Income Tax Liabilities *(Note 15)*	5,432	1,535
Asset Retirement Obligations *(Note 10)*	38,777	43,767
Other Deferred Credits	855	–
Total Liabilities	259,749	171,508
Equity		
Ordinary LP Units (31,750,000 outstanding) *(Note 11)*	301,750	–
Exchangeable LP Units (50,535,714 outstanding) *(Note 11)*	(63,085)	–
Divisional Equity – Net Investment *(Note 11)*	–	468,033
Retained Earnings	3,444	–
Cumulative Foreign Currency Translation Adjustment	(16,731)	(33,216)
Total Equity	225,378	434,817
Commitments, Contingencies and Guarantees *(Note 13)*		
Total Liabilities and Equity	485,127	606,325

See accompanying notes to the Consolidated Financial Statements

Approved on behalf of the Board of Canexus Limited, General Partner of Canexus Limited Partnership:

Gary L. Kubera
Director

Douglas P. Hayhurst
Director

for the years ended December 31

Cdn$ thousands	2005 *(Note 2a)*	2004 *(Note 2a)*
Operating Activities		
Net Income	54,345	57,162
Charges and Credits to Income Not Involving Cash *(Note 17)*	44,945	38,099
Purchase of Foreign Exchange Options	(4,217)	–
Expenditures on Asset Retirement Obligations *(Note 10)*	(608)	(2,861)
Changes in Non-Cash Working Capital *(Note 17)*	1,969	(8,668)
	96,434	83,732
Financing Activities		
Repayment of Short-Term Borrowings, Net	(12)	
Proceeds from Long-Term Debt *(Note 9)*	203,559	–
Repayment of Long-Term Debt, Net	(23,324)	–
Issuance of Ordinary LP Units, Net *(Note 1)*	301,750	–
Repurchase of Exchangeable LP Units *(Note 1)*	(17,500)	–
Distributions Paid to Exchangeable LP Unitholder	(12,751)	–
Distributions Paid to Ordinary LP Unitholders	(8,013)	–
Withdrawals from Divisional Equity, Net *(Note 11)*	(34,790)	(6,294)
Repayments to Affiliates, Net	(7,452)	(14,416)
	401,467	(20,710)
Investing Activities		
Acquisition of Chemicals Business from Nexen Inc. *(Note 1)*	(484,250)	–
Capital Expenditures	(14,379)	(57,630)
Changes in Non-Cash Working Capital *(Note 17)*	4,560	(2,497)
Other	79	(750)
	(493,990)	(60,877)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(225)	(2,478)
Increase (Decrease) in Cash and Cash Equivalents	3,686	(333)
Cash and Cash Equivalents – Beginning of Year	863	1,196
Cash and Cash Equivalents – End of Year	4,549	863

See accompanying notes to the Consolidated Financial Statements

consolidated statements of equity

canexus limited partnership

for the years ended December 31

Cdn$ thousands	2005 *(Note 2a)*	2004 *(Note 2a)*
Ordinary LP Units		
Beginning of Year	–	–
Issued upon Acquisition of Chemicals Business, Net *(Note 1)*	284,250	–
Issued upon Exercise of Underwriters Over-Allotment Option *(Note 1)*	17,500	–
End of Year	301,750	–
Exchangeable LP Units		
Beginning of Year	–	–
Transfer of Excess of Purchase Price over Net Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business *(Note 1)*	(45,585)	–
Repurchased upon Exercise of Underwriters Over-Allotment Option *(Note 1)*	(17,500)	–
End of Year	(63,085)	–
Divisional Equity – Net Investment		
Beginning of Year	468,033	417,165
Withdrawals During the Year	(34,790)	(6,294)
Net Income *(Note 3)*	24,139	57,162
Paid to Nexen Inc. on Acquisition of Chemicals Business *(Note 1)*	(484,250)	–
Transfer of Excess of Purchase Price over Net Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business *(Note 1)*	45,585	
Cumulative Foreign Currency Translation Adjustment Applicable to Predecessor Corporations Not Acquired by Canexus LP	(18,717)	–
End of Year	–	468,033
Retained Earnings		
Beginning of Year	–	–
Net Income *(Note 3)*	30,206	
Distributions Declared	(26,762)	–
End of Year	3,444	–
Cumulative Foreign Currency Translation Adjustment		
Beginning of Year	(33,216)	(25,342)
Translation Adjustment, Net of Income Taxes	(2,232)	(7,874)
Applicable to Predecessor Corporations Not Acquired by Canexus LP	18,717	
End of Year	(16,731)	(33,216)

See accompanying notes to the Consolidated Financial Statements

for the years ended December 31, 2005 and December 31, 2004

all tabular amounts in Cdn$ thousands, except as noted

1. organization and business of canexus limited partnership

Canexus Limited Partnership ("Canexus LP", "we" or "our") is a limited partnership established under the laws of Alberta. Canexus LP through its subsidiaries produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in Brazil, largely for the pulp and paper and water treatment industries. The head office is located in Calgary, Alberta with a Corporate office located in Houston.

Canexus Income Fund (the "Fund") is an unincorporated open-ended trust established by the Fund Trust Indenture, as amended and restated August 18, 2005, under the laws of Alberta. The Fund is a "mutual fund trust" for the purposes of the Income Tax Act (Canada). Pursuant to an underwriting agreement dated August 10, 2005, the Fund sold 30,000,000 Fund Units, at a price of $10.00 per unit, for proceeds totaling $300,000,000. The proceeds of the offering were used to partially fund the indirect acquisition by the Fund of a 36.5% interest in Canexus LP. In addition, the Fund granted the underwriters an option, exercisable for a period of 30 days from the closing of the offering on August 18, 2005, to purchase up to an additional 3,000,000 Fund Units at the offering price.

Pursuant to a purchase and sale agreement ("PSA") dated August 18, 2005, Canexus LP and certain direct and indirect subsidiaries of Canexus LP acquired the sodium chlorate and chlor-alkali chemicals business ("Chemicals Business") from Nexen Inc. and certain direct and indirect subsidiaries of Nexen Inc., for cash consideration of $484,250,000 and by issuing 52,285,714 exchangeable limited partnership units ("Exchangeable LP Units") of Canexus LP to Nexen Inc., representing a 63.5% controlling interest in Canexus LP. Canexus LP financed the cash consideration paid in the acquisition by borrowing the US dollar equivalent of $200,000,000 under its credit facility and by using the net proceeds from the investment made by the Fund. The Exchangeable LP Units retained by Nexen Inc. are exchangeable on a one-for-one basis for units of the Fund at any time at the option of Nexen Inc.

On September 16, 2005, the underwriters exercised a portion of their over-allotment option to purchase 1,750,000 Fund Units at $10.00 per Unit for proceeds of $17,500,000, which was used to indirectly acquire an additional 2.1% interest in Canexus LP. Canexus LP then used the $17,500,000 to repurchase 1,750,000 Exchangeable LP Units from Nexen Inc. Following exercise of the over allotment option, the Fund indirectly holds a 38.6% interest in Canexus LP and Nexen Inc. holds a 61.4% controlling interest in Canexus LP.

Pursuant to the Limited Partnership Agreement between Canexus Limited, Canexus Commercial Trust and Nexen Inc. dated August 9, 2005, Canexus Limited as general partner, has full power and exclusive authority to employ all persons necessary for the conduct of the partnership, to enter into any agreement and to incur any obligation related to the affairs of the partnership and is entitled to full reimbursement of all costs and expenses incurred on behalf of the partnership. As general and administrative costs incurred by Canexus Limited and pension obligations entered into by Canexus Limited are on behalf of the partnership, these costs and obligations have been reflected in the financial statements and notes thereto of Canexus LP.

2. accounting policies

The Financial Statements ("Financial Statements") of Canexus LP are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In the opinion of management, the Consolidated Financial Statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP's financial position at December 31, 2005 and the results of its operations and cash flows for the year ended December 31, 2005.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements, and revenues and expenses during the reporting period. Management reviews these estimates on an ongoing basis including those related to litigation, asset retirement obligations and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

(a) Basis of Presentation

Canexus LP is considered to be a continuation of the Chemicals Business following the continuity of interest method of accounting. Under the continuity of interest method of accounting, Canexus LP's acquisition of the Chemicals Business is recorded at the net book value of the Chemicals Business' assets and liabilities on August 17, 2005 and the equity of Canexus LP represented the equity of the Chemicals Business at that date. These financial statements should be read in conjunction with the Audited Financial Statements of the Chemicals Business included in the Canexus Income Fund Initial Public Offering Prospectus dated August 10, 2005.

The statements of income and cash flows for the year ended December 31, 2005 reflect the activities of the Chemicals Business from January 1, 2005 to August 17, 2005 combined with the activities of Canexus LP for the period August 18, 2005 to December 31, 2005 (see Note 3). The comparative figures represent the activities of the Chemicals Business.

(b) Accounts Receivable

Accounts receivable are recorded based on our revenue recognition policy (see Note 2 (g)). An allowance for doubtful accounts is made for specific doubtful receivables.

(c) Inventories and Operating Supplies

Inventories and operating supplies are stated at the lower of cost and net realizable value. Cost is determined on an average basis. Inventory costs include expenditures and other costs, directly or indirectly incurred in bringing the inventory to its existing condition.

(d) Property, Plant and Equipment (PP&E)

PP&E is recorded at cost and includes only recoverable costs that directly result in an identifiable future benefit. Unrecoverable costs, maintenance and turnaround costs are expensed as incurred. Improvements that increase capacity or extend the useful lives of the related assets are capitalized.

(e) Depreciation and Amortization (D&A)

We depreciate plant and equipment costs using the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Projects that are under construction are not depreciated or amortized.

We evaluate the carrying value of our PP&E whenever events or conditions occur that indicate that the carrying value of the PP&E may not be recoverable from future cash flows. These events or conditions may occur periodically. If the carrying value exceeds the sum of undiscounted future cash flows, the PP&E value is impaired. PP&E is then assigned a fair value equal to estimated total future cash flows, discounted for the time value of money, and we expense the excess carrying value to depreciation and amortization. Our cash flow estimates require assumptions about future product prices, operating costs and other factors. Actual results can differ from those estimates.

(f) Asset Retirement Obligations

We provide for future asset retirement obligations on our facilities based on estimates established by current legislation and industry practices. The asset retirement obligation is initially measured at fair value and capitalized to PP&E as an asset retirement cost. The asset retirement obligation accretes until the time the retirement obligation is expected to settle while the asset retirement cost is amortized over the useful life of the underlying PP&E.

The amortization of the asset retirement cost and the accretion of the asset retirement obligation are included in depreciation and amortization. Actual retirement costs are recorded against the obligation when incurred. Any difference between the recorded asset retirement obligation and the actual retirement costs incurred is recorded as a gain or loss in the period of settlement.

(g) Revenue Recognition

Revenue is recognized when our products are delivered to our customers. Delivery only takes place when we have a sales contract in place specifying delivery volumes and sales prices. Provisions for estimated rebates, commissions and pricing allowances are recorded as a reduction to sales. We assess customer credit worthiness before entering into sales contracts to minimize collection risk.

(h) Income Taxes

We follow the liability method of accounting for income taxes. This method recognizes income tax assets and liabilities at current rates, based on temporary differences in reported amounts for financial statement and tax purposes. The effect of a change in income tax rates on future income tax assets and future income tax liabilities is recognized in income when substantively enacted. The provision for income taxes substantially arises from foreign operations.

(i) Foreign Currency Translation

Monetary balances denominated in a currency other than a functional currency are translated into Canadian dollars using exchange rates at the balance sheet dates. Gains and losses arising from translation are included in income.

The accounts of our international subsidiaries that are considered financially and operationally independent are translated from their functional currency into Canadian dollars as follows:

- assets and liabilities using exchange rates at the balance sheet dates; and
- revenues and expenses using the average exchange rates throughout the period.

Gains and losses resulting from this translation are included in the cumulative foreign currency translation adjustment in equity.

The accounts of our international subsidiaries that are not considered financially and operationally independent are translated from their functional currency into Canadian dollars as follows:

- monetary assets and liabilities using exchange rates at the balance sheet dates;
- non-monetary assets and liabilities using historical rates;
- revenues and expenses using the average exchange rates throughout the period;
- depreciation and amortization is translated at the same exchange rate as the non-monetary assets to which it relates.

Gains and losses resulting from this translation are included in earnings for the period.

(j) Derivative Instruments

From time to time we use financial derivatives to manage the risks associated with fluctuations in currency and power rates. We have not designated our derivative instruments as hedges for accounting purposes. We record these instruments at fair value at the balance sheet date and record any change in fair value as a net gain or loss during the period of change.

(k) Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that mature within three months of their purchase. They are recorded at cost, which approximates market value.

(l) Restricted Investments

Restricted investments are recorded at the lower of cost or market.

(m) Transportation

We pay to transport the chemicals products that we market and transportation costs are included in cost of goods sold.

(n) Employee Benefits

The cost of pension benefits earned by employees in our defined benefit pension plans is actuarially determined using the projected benefit method prorated on service and our best estimate of the plans' investment performance, salary escalations and retirement ages of employees. To calculate the plan's expected returns, assets are measured at fair value. Past service costs arising from plan amendments, and net actuarial gains and losses which exceed 10% of the greater of the accrued benefit obligation and the fair value of plan assets, are expensed in equal amounts over the expected average remaining service life of the employee group. We measure the plan assets and the accrued benefit obligation on October 31 each year.

(o) Reclassification

Certain comparative figures have been reclassified for consistency with current period presentation.

3. results of canexus lp and its predecessor

(a) Consolidated Statements of Income and Cash Flows

The following consolidated statements of income and cash flows reflect the activities of Canexus LP for the year ended December 31, 2005 separated to show the results of the Chemicals Business prior to August 18, 2005 and the results of Canexus LP subsequent to August 17, 2005.

consolidated statements of income	January 1 to August 17 2005	August 18 to December 31 2005	Year Ended December 31 2005
Revenues			
Sales	250,373	147,050	397,423
Interest on Loans to Affiliates	696		696
	251,069	147,050	398,119
Expenses			
Cost of Goods Sold	172,556	102,655	275,211
Depreciation and Amortization	37,257	13,482	50,739
General and Administrative	16,771	9,720	26,491
Interest		3,242	3,242
	226,584	129,099	355,683
Income before Other Income and Income Taxes	24,485	17,951	42,436
Other Income	2,773	12,142	14,915
Income before Income Taxes	27,258	30,093	57,351
Provision for Income Taxes			
Current	632	(682)	[illegible]
Future	2,487	569	[illegible]
	3,119	(113)	[illegible]
Net Income	24,139	30,206	[illegible]

consolidated statements of cash flows	January 1 to August 17 2005	August 18 to December 31 2005	Year Ended December 31 2005
Operating Activities			
Net Income	24,139	30,206	54,345
Charges and Credits to Income Not Involving Cash	37,925	7,020	44,945
Purchase of Foreign Exchange Options	(4,217)	–	(4,217)
Expenditures on Asset Retirement Obligations	(167)	(441)	(608)
Changes in Non-Cash Working Capital	(4,172)	6,141	1,969
	53,508	42,926	96,434
Financing Activities			
Repayment of Short-Term Borrowings, Net	–	(12)	(12)
Proceeds from Long-Term Debt	–	203,559	203,559
Repayment of Long-Term Debt, Net	–	(23,324)	(23,324)
Issuance of Ordinary LP Units, Net	–	301,750	301,750
Repurchase of Exchangeable LP Units	–	(17,500)	(17,500)
Distributions Paid to Exchangeable LP Unitholder	–	(12,751)	(12,751)
Distributions Paid to Ordinary LP Unitholders	–	(8,013)	(8,013)
Contributions to (Withdrawals from) Divisional Equity, Net	(46,899)	12,109	(34,790)
Advances from (Repayments to) Affiliates, Net	1,901	(9,353)	(7,452)
	(44,998)	446,465	401,467
Investing Activities			
Acquisition of Chemicals Business from Nexen Inc.	–	(484,250)	(484,250)
Capital Expenditures	(7,052)	(7,327)	(14,379)
Changes in Non-Cash Working Capital	(2,143)	6,703	4,560
Other	(362)	441	79
	(9,557)	(484,433)	(493,990)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	498	(723)	(225)
Increase (Decrease) in Cash and Cash Equivalents	(549)	4,235	3,686
Cash and Cash Equivalents – Beginning of Period	863	314	863
Cash and Cash Equivalents – End of Period	314	4,549	4,549

(b) Operations Not Acquired from Predecessor

Included in the results of the predecessor's operations for the years ended December 31, 2005 and 2004 are amounts related to the Amherstburg, Ontario and the Taft, Louisiana sodium chlorate production facilities and the Watson Island terminal. The Amherstburg plant was closed on July 31, 2005 and the Taft plant was dismantled and transferred to Brandon, Manitoba for use in the 2004 expansion of the Brandon sodium chlorate production facility. Under the terms of the purchase and sale agreement, Canexus LP is not responsible for any obligations resulting from these operations. The results of these operations, and the corresponding asset retirement obligations, are not included in the results of Canexus LP after August 17, 2005.

(c) Affiliate Financings

Included in the results of the predecessor's operations are amounts related to affiliate financing arrangements with Nexen Inc. or its affiliates. These financing arrangements were terminated prior to August 17, 2005 and therefore are not included in the results of Canexus LP after this date.

4. inventories and operating supplies

	2005	2004
Raw Materials and Work-in-Progress	4,419	5,531
Finished Goods	15,182	13,204
Operating Supplies	12,867	12,500
	32,468	31,235

5. other assets

	2005	2004
Fair Value of Foreign Exchange Options *(Note 8)*	6,239	–
Prepaid Insurance	2,273	473
Prepaid Freight	465	–
Prepaid Salt Purchases	–	2,649
Other	639	623
	9,616	3,745

6. property, plant and equipment

2005	Cost	Accumulated D&A	Net Book Value
North America Sodium Chlorate [1]	500,334	249,360	250,974
North America Chlor-alkali	139,249	104,203	35,046
Brazil	112,330	27,638	84,692
Other	5,287	4,923	364
	757,200	386,124	371,076

2004	Cost	Accumulated D&A	Net Book Value
North America Sodium Chlorate	569,161	284,077	285,084
North America Chlor-alkali	132,657	99,773	32,884
Brazil	112,211	22,434	89,777
Other	5,027	4,801	226
	819,056	411,085	407,971

[1] On June 29, 2005, Nexen Inc. announced it would close the sodium chlorate plant located in Amherstburg, Ontario. As a result, the property, plant and equipment were fully depreciated during the period ended June 30, 2005 and an impairment charge of $12.1 million was recorded. Canexus LP did not acquire the Amherstburg operations as part of the purchase of the Chemicals Business and therefore the cost and accumulated depreciation of the Amherstburg sodium chlorate plant are not included in the December 31, 2005 balance.

The balances at December 31, 2005 include capitalized costs of $3 million (December 2004 - $7 million) relating to projects under construction or development. These costs are not being depreciated or amortized.

7. restricted investments

Restricted investments represent funds maintained in a segregated bank account. These funds and any interest earned on these funds are to be used for the settlement of ongoing asset retirement obligations and site remediation activities.

for the period from August 18, 2005 to December 31, 2005	
Balance at Beginning of Period	14,000
Interest Earned	127
Expenditures on Asset Retirement Obligations	(441)
Balance at End of Period	13,686

8. derivative instruments and financial risk management

(a) Carrying Value and Estimated Fair Value of Derivative and Financial Instruments

	2005			2004		
	Carrying Value	Fair Value	Unrecognized Gain/(Loss)	Carrying Value	Fair Value	Unrecognized Gain/(Loss)
Non-Trading Activities						
Electricity Rate Risk						
Forward Swap Contracts	–	(51)	(51)	–	5	5
Foreign Currency Risk						
Foreign Exchange Options	6,239	6,239	–	–	–	–
Total Derivatives	6,239	6,188	(51)	–	5	5

The carrying value of cash and cash equivalents, accounts receivable, due from affiliates and current liabilities approximated their fair value because the instruments are near maturity. Restricted investments approximate their fair value due to the nature of the investments. Long-term debt bears interest at floating rates and the carrying value approximated the fair value.

(b) Electricity Rate Risk Management

We use forward swap contracts to manage our exposure to the price of electricity in deregulated regions. The following contracts were outstanding at December 31, 2005 and at December 31, 2004:

electricity forward swap contracts – 2005	Volumes (MWh)	Month	Price (Cdn$/MWh)
	7,440	January 2006	89.00
	3,720	January 2006	84.00
	6,200	January 2006	73.00
	17,360		82.21

electricity forward swap contracts – 2004	Volumes (MWh)	Month	Price (Cdn$/MWh)
	7,440	January 2005	48.75

The financial impact of mark-to-market adjustments on these contracts is not material to these Consolidated Financial Statements.

(c) Foreign Currency Risk Management

Our operating results and cash flows are affected by changes in the Canadian dollar relative to the US dollar. Our North American operations realize a significant portion of their revenues in US dollars with the majority of their costs in Canadian dollars and the majority of our sales in Brazil are under a US dollar fixed margin contract.

During August 2005, Canexus LP acquired US dollar foreign exchange call options on US $11 million per month. Under the options, Canexus LP is entitled to sell US dollars and acquire Canadian dollars at a price of US $0.813 per Canadian dollar for the period August 24, 2005 to August 9, 2006. The options were designed to protect our cash flows if the Canadian dollar strengthens above US $0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar below US $0.813. The fair value of the foreign exchange call options are included in other current assets with changes in the fair value included in other income on the Consolidated Statement of Income. Commencing December 2005 Canexus LP began purchasing natural gas in US dollars reducing its exposure to the US dollar. This allowed Canexus LP to sell US $1.5 million per month of the US $11 million per month of foreign exchange options on January 11, 2006 for proceeds of US $667,000.

(d) Credit Risk Management

Our accounts receivable are with counterparties in the pulp and paper, water treatment and oil and gas industries and are subject to normal credit risk associated with these industries. The concentration of risk within these industries is reduced because of our broad base of domestic and international counterparties. We assess the financial strength of our counterparties, and we limit the total exposure to individual counterparties. In some cases, our contracts contain provisions that allow us to demand the posting of collateral in the event downgrades to non-investment grade credit ratings occur. We routinely monitor credit risk, including credit concentrations. The majority of our Brazil production is sold to Aracruz Cellulose S.A. under a long-term sales agreement. Amounts receivable from Aracruz Cellulose S.A. represent approximately 12% of total accounts receivable at December 31, 2005 (December 31, 2004 – 10%).

9. long-term debt and short-term borrowings

On August 18, 2005, we entered into a Credit Facility with a syndicate of financial institutions. The Credit Facility consists of a $350 million, four year revolving facility a portion of which was used to acquire the Chemicals Business and can otherwise be used for general purposes, including future acquisitions and capital expenditures. The Credit Facility is available for drawdown during the revolving period. The Credit Facility bears interest at rates that vary depending on the consolidated debt to earnings before interest, income taxes, depreciation and amortization (EBITDA) ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We may drawdown the Credit Facility in either Canadian or US dollars. Short-term Swing Line Loans of up to $20 million Canadian are available under the Credit Facility provided that the aggregate principal outstanding under the Credit Facility does not exceed $350 million Canadian. The Credit Facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements. The Credit Facility also contains covenants with respect to certain financial ratios. At December 31, 2005 we were in compliance with all covenants.

On August 18, 2005, $203,559,195 (US $167,098,337) was drawn on the Credit Facility and $200,000,000 was used to partially fund the acquisition of the Chemicals Business from Nexen Inc. At December 31, 2005, we have $171,387,300 (US $147,000,000) outstanding on this Credit Facility. The weighted average interest rate during the period August 18, 2005 to December 31, 2005 was 4.8% and the total interest incurred for such period was $3,228,061.

During the period August 18, 2005 to December 31, 2005 there were two drawings on the Swing Line Loan facilities. The weighted average interest rate on these drawings was 6.75% and total interest incurred was $743.

10. asset retirement obligations

Changes in carrying amounts of the asset retirement obligations associated with our property, plant and equipment are as follows:

	2005	2004
Balance at Beginning of Year	43,767	43,061
Obligations Assumed with Investing Activities	–	1,381
Obligations Retained by Nexen Inc.	(5,445)	–
Expenditures on Asset Retirement Obligations	(608)	(2,861)
Accretion	2,456	2,276
Effect of Foreign Exchange	(376)	(90)
Balance at End of Year [1]	39,794	43,767

Note:

[1] Obligations due within 12 months of $1,017,000 have been included in accounts payable and accrued liabilities.

Our total estimated undiscounted asset retirement obligations at December 31, 2005 amounted to $73 million (December 31, 2004 – $81 million). We have discounted the total estimated asset retirement obligations using a weighted average credit-adjusted risk-free rate of 5.4%. Approximately $2.2 million included in our asset retirement obligations are expected to be settled over the next three years.

11. equity

Canexus LP is entitled to issue various classes of partnership interests, for such consideration and on such terms and conditions as determined by the General Partner, Canexus Limited.

	Number of Units	2005	2004
GP Units			
Beginning of Year	–	–	–
Issued upon Formation *(Note 1)*	1	–	–
End of Year	1	–	–
Ordinary LP Units			
Beginning of Year	–	–	–
Issued upon Acquisition of Chemicals Business, Net *(Note 1)*	30,000,000	284,250	–
Issued upon Exercise of Underwriters Over-Allotment Option *(Note 1)*	1,750,000	17,500	–
End of Year	31,750,000	301,750	–
Exchangeable LP Units			
Beginning of Year	–	–	–
Transfer of Excess of Purchase Price over Net Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business *(Note 1)* [1]	52,285,714	(45,585)	–
Repurchased upon Exercise of Underwriters Over-Allotment Option *(Note 1)*	(1,750,000)	(17,500)	–
End of Year	50,535,714	(63,085)	–

See page 68 for Note [1]

	2005	2004
Divisional Equity – Net Investment		
Beginning of Year	468,033	417,165
Withdrawals During the Year	(34,790)	(6,294)
Net Income	24,139	57,162
Paid to Nexen Inc. on Acquisition of Chemicals Business *(Note 1)*	(484,250)	–
Transfer of Excess of Purchase Price over Net Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business *(Note 1)* [1]	45,585	–
Cumulative Foreign Currency Translation Adjustment Applicable to Predecessor Corporations Not Acquired by Canexus LP	(18,717)	–
End of Year	–	468,033

Note:

[1] Canexus LP is considered to be a continuation of the Chemicals Business following the continuity of interest method of accounting. Under the continuity of interest method of accounting, Canexus LP's acquisition of the Chemicals Business is recorded at the net book value of the Chemicals Business' assets and liabilities on August 17, 2005 and the equity of Canexus LP represented the equity of the Chemicals Business at that date. This amount represents the difference between the amount paid to Nexen Inc. for the purchase of the Chemicals Business and the net book value of the Chemicals Business on the purchase date.

The GP Unitholder is entitled to one vote for each unit held at all meetings of holders of partnership units and to an allocation of 0.01% of the income or loss of Canexus LP for each fiscal year.

The Ordinary LP Unitholders and the Exchangeable LP Unitholder are entitled to one vote for each unit held at all meetings of holders of the LP units and have economic rights that are equivalent in all material respects, except that Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary antidilution protections) for Fund Units at the option of the holder at any time. Additionally, Exchangeable LP Units have Special Voting Rights that entitle the holder to receive notice of, attend and to vote at all meetings of Unitholders of the Fund.

Canexus LP paid distributions of $0.2523 per unit to Ordinary and Exchangeable LP Unitholders during the period August 18, 2005 to December 31, 2005. On December 14, 2005 a distribution of $0.0729 was declared payable to Ordinary and Exchangeable LP Unitholders of record December 31, 2005 for payment on or about January 15, 2006.

12. other income

	2005	2004
Unrealized Currency Translation Gains (Losses)		
Debt	6,884	–
Other	995	(1,338)
	7,879	(1,338)
Realized Currency Translation Gains	1,549	–
Change in Fair Value of Foreign Exchange Options	1,277	–
Realized Gains on Foreign Exchange Options	2,978	–
	13,683	(1,338)
Other	1,232	4,305
	14,915	2,967

13. commitments, contingencies and guarantees

	2006	2007	2008	2009	2010	Thereafter
Operating Leases	12,372	10,897	8,372	6,856	5,000	3,739

From time to time, Canexus LP enters into multi-year salt supply contracts with certain strategic suppliers. These contracts are entered into in the normal course of business, are discretionary in nature and do not give rise to any material commitments and therefore have not been included in the table above.

In the normal course of business, Canexus LP is subject to lawsuits and claims, including potential income tax reassessments. Management believes the resolution of these matters will not have a material effect, individually or in the aggregate, on Canexus LP's liquidity, combined financial position or results of operations. Canexus LP records costs as they are incurred or become determinable.

14. pension and other post retirement benefits

All employees who participated in and accrued benefits under the pension plans for Nexen Inc., ceased to participate in the Nexen Inc. pension plans as of August 17, 2005. Effective August 18, 2005, Canexus Limited, on behalf of Canexus LP, established contributory and non-contributory defined benefit and defined contribution pension plans covering substantially all employees and an unfunded supplemental retirement plan for its executives and other employees that earn pension benefits in excess of legislated limits.

Effective August 18, 2005, the employees commenced participation in and began accruing benefits under the pension plans. The pension plans provide employees with benefits for their period of service with Nexen Inc. based on plan provisions which are identical to those under the Nexen Inc. pension plans immediately prior to August 18, 2005. Under the defined benefit plans, benefits are provided to retirees based on their length of service and final average earnings. Benefits paid out of the defined benefit plan are indexed to 75% of the annual rate of inflation less 1%.

An independent actuary has determined the solvency liabilities related to employees who participated in and accrued benefits under the Nexen Inc. pension plans at August 18, 2005. Nexen Inc. will transfer the pension assets to Canexus Limited in 2006 on a fully-funded solvency basis whereby Nexen Inc. will contribute any funding shortfall to Canexus Limited. Canexus Limited assumed responsibility for all pension liabilities effective August 18, 2005 (Note 1).

On August 18, 2005, Canexus LP recorded their pro-rata share of Nexen's book value of the pension assets and liabilities related to Canexus Limited employees. At December 31, 2005, Other Assets includes a $103,000 pension asset related to the Defined Benefit Plan and Other Deferred Credits includes a $330,000 pension liability for the supplemental retirement plan for executives.

(a) Defined Benefit Pension Plans

The cost of pension benefits earned by employees under the Defined Benefit Plan and under the Supplemental Plan are determined using the projected-benefit method prorated on employment services and are expensed as services are rendered. We fund these plans according to federal and provincial government regulations by contributing to trust funds administered by an independent trustee. These funds are invested primarily in equities and bonds.

for the period from August 18, 2005 to December 31, 2005	
Change in Projected Benefit Obligation (PBO)	
Beginning of Period	48,686
Service Cost	1,113
Interest Cost	899
Plan Participants' Contributions	281
Actuarial Gain	(1,653)
Benefits Paid	–
End of Period [1]	49,326

See page 72 for Notes

for the period from August 18, 2005 to December 31, 2005	
Change in Fair Value of Plan Assets	
Beginning of Period	40,140
Expected Return on Plan Assets	950
Employer's Contribution	–
Plan Participants' Contributions	281
Benefits Paid	–
Deferred Investment Loss	(1,030)
End of Period	40,341
Reconciliation of Funded Status	
Funded Status [2]	(8,985)
Unamortized Transitional Asset	(5)
Unamortized Prior Service Costs	46
Unamortized Net Actuarial Loss	8,717
Pension Liability, Net	(227)
Pension Liability Recognized	
Other Assets	103
Other Deferred Credits	(330)
Pension Liability	(227)
Assumptions (%)	
Accrued Benefit Obligation at December 31	
Discount Rate	5.25
Long-Term Rate of Employee Compensation Increase	4.00
Benefit Cost for Year Ended December 31 [3]	
Discount Rate	5.25
Long-Term Rate of Employee Compensation Increase	4.00
Long-Term Annual Rate of Return on Plan Assets [4]	6.50

See page 72 for Notes

Notes to tables on pages 70 and 71

(1) Canexus Limited's employee pension plan's accumulated benefit obligation (the projected benefit obligation) excluding future salary increases was $36,244,000 at December 31, 2005. Canexus Limited's supplemental pension plan's accumulated benefit obligation excluding future salary increases was $30,000 at December 31, 2005.

(2) Includes unfunded obligations for supplemental benefits to the extent that the benefit is limited by statutory guidelines At December 31, 2005, the projected benefit obligation for supplemental benefits was $617,000.

(3) The assumptions have been used to calculate the recognized expense for Canexus Limited. There were no changes to the assumptions between the measurement date and December 31, 2005.

(4) The long term annual rate of return on plan assets assumption is based on a mix of historical market returns for debt and equity securities.

(b) Net Pension Expense Recognized Under Our Defined Benefit Pension

for the period from August 18, 2005 to December 31, 2005	
Cost of Benefits Earned by Employees	1,113
Interest Cost on Benefits Earned	899
Actual Return on Plan Assets	80
Actuarial Gains	(1,653)
Pension Expense Before Adjustments For the Long-Term Nature of Employee Future Benefit Costs	439
Difference Between Expected and Actual Return	(1,030)
Difference Between Recognized and Actual Actuarial Gains	1,822
Difference Between Recognized and Actual Past Service Costs	3
Net Pension Expense	1,234

(c) Defined Contribution Plans

Under these plans, pension benefits are based on plan contributions. For the period August 18, 2005 through December 31, 2005, pension expense for the Canadian plan was $126,917 and $38,365 for the US plan.

(d) Post-Retirement Benefits

Effective August 18, 2005, Canexus Limited, as general partner of Canexus LP, is providing post-retirement benefits, identical to those provided by Nexen prior to August 18, 2005, to eligible employees and their dependents. These benefits include group life and supplemental health insurance. At December 31, 2005, Other Deferred Credits includes a $525,000 post-retirement benefit liability.

These costs are fully accrued as compensation in the period employees work; however, these future obligations are not funded. The present value of Canexus Limited employees' future post-retirement benefits as at December 31, 2005 was $1,671,000.

15. income taxes

Canexus Limited Partnership as an entity is not subject to Canadian federal or provincial income tax. Partners are required to report their allocable share of the Partnership's items of taxable income, gain, deduction or loss in their own income tax returns as though each partner had incurred such items directly. Certain Canexus LP subsidiaries are subject to taxation in their respective jurisdictions. As a result, provisions for income and capital taxes are only required for the subsidiary entities subject to taxation.

(a) Temporary Differences

	2005 Future Income Tax		2004 Future Income Tax	
	Asset	Liability	Asset	Liability
Property, Plant and Equipment, Net	1,998	5,432	2,600	1,535
Tax Losses Carried Forward	3,095	–	1,151	–
	5,093	5,432	3,751	1,535

(b) Reconciliation of Effective Tax Rate to the Canadian Federal Tax Rate

	2005	2004
Canadian Partnership Statutory Rate	0.00%	0.00%
Income before Income Taxes	57,351	57,093
Provision for Income Taxes Computed at the Canadian Partnership Statutory Rate	–	–
Add (Deduct) the Tax Effect of:		
Taxes on Foreign Operations	2,301	877
Other	705	(946)
Provision for Income Taxes	3,006	(69)

(c) Available Unused Tax Losses and Tax Contingencies

At December 31, 2005, various Canexus LP subsidiaries had unused tax losses totalling $7 million (December 31, 2004 $3 million).

The income tax filings of taxable entities included in Canexus LP are subject to audit by taxation authorities. The outcome of any audits may change the tax liabilities of these entities. While the outcome of these audits cannot be ascertained at this time, we believe we have an adequate provision for income taxes based on currently available information.

16. amounts due to / from affiliates and related party transactions

Due to affiliates at December 31, 2004 represented amounts owing to a Nexen affiliate. All borrowings under this facility were repayable on demand and non-interest bearing. These amounts were repaid and the facilities cancelled during 2005.

Due from affiliates at December 31, 2004 represented amounts made available on a borrowing facility to a Nexen affiliate. All borrowings on the facility were repayable on demand and interest bearing at the Reserve Bank of Australia's Large Business Variable Term Rate plus 1.5%. Interest was payable monthly. During 2004, the average interest rate was 10.35%. These amounts were repaid and the facilities cancelled during 2005.

Due from affiliates at December 31, 2005 includes amounts due from Nexen Inc. Under the terms of a purchase and sale agreement dated August 18, 2005, Nexen Inc. was required to pay Canexus LP for any shortfall in working capital below $75 million (after certain agreed upon adjustments) at the date of the acquisition of the Chemicals Business. Other amounts due from affiliates relate to amounts owing in the normal course of operations as discussed below.

On August 18, 2005, we entered into a Transition Services Agreement whereby Nexen Inc. provides certain services to assist in the transition of our business to a stand-alone entity. This agreement provides that, for a period of up to 18 months, Nexen Inc. will provide us certain requested administrative, operating and financial services in the manner provided by Nexen Inc. for the 12 month period prior to August 18, 2005. These services are provided by Nexen Inc. on a cost-reimbursement basis including reimbursement of Nexen Inc.'s internal costs. We have agreed to take reasonable steps to become self-sufficient with respect to the subject services as soon as possible such that some or all of the subject services may not be required for the entire 18 month term of the agreement. We incurred $2,472,203 of costs under this Transition Services Agreement for the period from August 18, 2005 to December 31, 2005.

Canexus LP purchases some of its natural gas and electricity requirements from a Nexen affiliate. For the period August 18, 2005 to December 31, 2005 Canexus LP incurred $9,222,270 for these purchases.

17. cash flows

(a) Charges and Credits to Income Not Involving Cash

	2005	2004
Depreciation and Amortization	50,739	37,100
Change in Fair Value of Foreign Exchange Options	(1,277)	–
Unrealized Currency Translation (Gains) Losses	(7,879)	1,338
Realized Currency Translation Gains	(1,549)	–
Future Income Taxes	3,056	(339)
Pension and Post Retirement Benefit Expense	1,759	–
Other	96	–
	44,945	38,099

(b) Changes in Non-Cash Working Capital

	2005	2004
Accounts Receivable	4,917	(7,172)
Inventories and Operating Supplies	(1,233)	1,586
Other Current Assets	368	(2,233)
Accounts Payable and Accrued Liabilities	4,236	882
Accrued Interest Payable	355	–
Effect of Foreign Exchange on Non-Cash Working Capital	(2,114)	(4,228)
Total Change in Non-Cash Working Capital	6,529	(11,165)
Relating to:		
Operating Activities	1,969	(8,668)
Investing Activities	4,560	(2,497)
Total Change in Non-Cash Working Capital	6,529	(11,165)

(c) Other Cash Flow Information

	2005	2004
Interest Paid	2,887	–
Income Taxes Paid	455	1,894

18. operating and geographic segments

Canexus LP's operations comprise North American sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; Bruderheim, Alberta; and Nanaimo, British Columbia; as well as a North American chlor-alkali production facility at North Vancouver, British Columbia and a sodium chlorate and chlor-alkali production facility in Brazil. In Brazil, most of our sales are made to a single customer, Aracruz Cellulose S.A., under a long-term sales agreement. The accounting policies of our segments are the same as those described in Note 2. Identifiable assets are those used in the operations of the segments.

year ended December 31, 2005	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Corporate	Total
Revenues					
Sales [2]	192,920	136,709	67,794	–	397,423
Interest on Loans to Affiliates	–	–	–	696	696
	192,920	136,709	67,794	696	398,119
Expenses					
Cost of Goods Sold	139,326	89,869	46,016	–	275,211
Depreciation and Amortization [1]	39,250	5,079	6,410	–	50,739
General and Administrative	15,578	8,745	1,736	432	26,491
Interest	–	–	–	3,242	3,242
	194,154	103,693	54,162	3,674	355,683
Income (Loss) before Other Income and Income Taxes	(1,234)	33,016	13,632	(2,978)	42,436
Other Income	–	–	–	14,915	14,915
Income (Loss) before Income Taxes	(1,234)	33,016	13,632	11,937	57,351
Capital Expenditures	3,936	6,686	3,757	–	14,379

See page 78 for Notes

year ended December 31, 2004	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Corporate	Total
Revenues					
Sales [(2)]	207,377	111,399	59,157	–	377,933
Interest on Loans to Affiliates	–	–	–	10,587	10,587
	207,377	111,399	59,157	10,587	388,520
Expenses					
Cost of Goods Sold	153,979	81,293	37,976	–	273,248
Depreciation and Amortization	25,162	5,323	6,615	–	37,100
General and Administrative	14,760	6,895	2,238	153	24,046
	193,901	93,511	46,829	153	334,394
Income before Other Income and Income Taxes	13,476	17,888	12,328	10,434	54,126
Other Income	–	–	–	2,967	2,967
Income before Income Taxes	13,476	17,888	12,328	13,401	57,093
Capital Expenditures	49,536	3,419	4,675	–	57,630

Identifiable Assets [(3)]	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Corporate	Total
December 31, 2005	289,215	67,829	101,956	26,127	485,127
December 31, 2004	341,808	53,188	104,883	106,446	606,325

See page 78 for Notes

Notes:

(1) On June 29, 2005, Nexen Inc. announced it would close the sodium chlorate plant located in Amherstburg, Ontario. As a result, the property, plant and equipment were fully depreciated during the period ended June 30, 2005 and an impairment charge of $12.1 million was recorded.

(2) Sales from all segments include:

	2005	2004
Canada	131,404	134,647
United States	198,225	184,129
Brazil	67,794	59,157
	397,423	377,933

(3) Property, plant and equipment from all segments include:

	2005	2004
Canada	286,186	316,674
United States	198	1,520
Brazil	84,692	89,777
	371,076	407,971

The Annual Meeting of Unitholders and Holders of Special Voting Rights of Canexus Income Fund will be held at 11:00 a.m. (Mountain Time) on Tuesday, April 25, 2006 in the Leduc Room of the Fairmont Palliser Hotel, 133 – 9th Avenue S.W., Calgary, Alberta. Unitholders and Holders of Special Voting Rights are encouraged to attend, and those unable to should vote their securities by telephone, via the internet or by completing and returning the Form of Proxy.

The Proxy Circular, Annual Information Form and Annual Report can be found at www.canexus.ca or copies may be obtained from the Assistant Corporate Secretary of Canexus Limited at 801 – 7th Avenue S.W., Calgary, Alberta, T2P 3P7; telephone (403) 571-7300; facsimile (403) 514-0887.

directors

Dennis G. Flanagan
Chairman
Calgary, Alberta

Stephanie L. Felesky
Calgary, Alberta

Hugh A. Fergusson
Calgary, Alberta

Douglas P. Hayhurst
West Vancouver, British Columbia

Nicholas G. Kirton
Calgary, Alberta

Gary L. Kubera
Houston, Texas

Kevin J. Reinhart
Calgary, Alberta

Marvin F. Romanow
Calgary, Alberta

Thomas A. Sugalski
Sante Fe, New Mexico

Lyall C. Work
Mississauga, Ontario

auditors

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

officers and senior management

Gary L. Kubera
President and Chief Executive Officer

Richard T. McLellan
Senior Vice President, Finance and
Chief Financial Officer

Keith D. McLeod
Senior Vice President, Operations

Pericles dos Santos
Managing Director, South America

Diane J. Pettie
Vice President, General Counsel and
Corporate Secretary

R. Glenn Pomeroy
Vice President, Finance and Planning

A. Scott Tuttle
Vice President, Human Resources

David B. Gosse
Vice President, Technology and Engineering

Brian P. Bourgeois
Vice President, Sales and Marketing North America

Hazel A.B. Kreuz
Director, Corporate Planning

Tracy M. Horan
Assistant Corporate Secretary

registrar and transfer agent

Computershare Trust Company of Canada
Calgary, Alberta

stock exchange listing

Toronto Stock Exchange: CUS.UN

investor relations

Richard T. McLellan
Senior Vice President, Finance
and Chief Financial Officer
Direct: (403) 571-7311
Email: canexus@canexus.ca

head office

801 – 7th Avenue S.W.
Calgary, Alberta T2P 3P7
Telephone: (403) 571-7300
Facsimile: (403) 514-0851
Email: canexus@canexus.ca
Website: www.canexus.ca

houston corporate office

Suite 400, 450 Gears Road
Houston, Texas 77067
Telephone: (281) 875-7280

south america business development office

Av. Das Nações Unidas, 12.551
Ed. World Trade Center – Salas 918/919
CEP 04.578-903 – São Paulo – (SP) – Brazil
Telephone: (55) (11) 3443-7467

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